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AEW REAL ESTATE INCOME FUND

Form 497

November 27, 2002

Filed Pursuant to Rule 497(h)
File No. 333-100018

PROSPECTUS
[LOGO] AEW

3,750,000 SHARES
AEW REAL ESTATE INCOME FUND
COMMON SHARES
\$15.00 PER SHARE

INVESTMENT OBJECTIVES. AEW Real Estate Income Fund (the "Fund") is a newly organized, non-diversified, closed-end management investment company.

- . The Fund's primary investment objective is high current income; and
- . The Fund's secondary investment objective is capital appreciation.

PORTFOLIO CONTENTS. Under normal market conditions, the Fund will invest at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares and debt securities issued by Real Estate Companies (companies, including real estate investment trusts ("REITs"), that generally derive at least 50% of their revenue from the ownership, construction, financing, management or sale of commercial, industrial or residential real estate, or have at least 50% of their assets invested in such real estate). The Fund will, under normal market conditions, invest at least 80% of its total assets in income-producing equity securities issued by REITs. The Fund may invest in non-investment grade fixed income securities, such as non-investment grade debt securities (commonly known as "junk bonds") and non-investment grade preferred and convertible preferred shares, although the Fund will not invest in a non-investment grade fixed income security if, as a result of such investment, more than 25% of the Fund's total assets would be invested in such securities. There can be no assurance that the Fund will achieve its investment objectives. For more information on the Fund's investment strategies, see "Investment Objectives and Policies" and "Principal Risks of the Fund."

NO PRIOR HISTORY. Because the Fund is newly organized, its common shares have no history of public trading. The shares of closed-end investment companies frequently trade at a discount from their net asset value. This risk may be greater for investors expecting to sell their shares a relatively short time after completion of the public offering. The Fund's common shares have been approved for listing on the American Stock Exchange under the symbol "RIF."

INVESTING IN THE COMMON SHARES INVOLVES RISKS THAT ARE DESCRIBED IN "PRINCIPAL RISKS OF THE FUND" BEGINNING ON PAGE 28 OF THIS PROSPECTUS.

	PER SHARE	TOTAL
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Public offering price.....	\$15.00	\$56,250,000

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Sales load(1).....	\$.675	\$2,531,250
Estimated offering expenses(2) \$.03	\$112,500
Proceeds to the Fund.....	\$14.295	\$53,606,250

(1)For a description of other compensation paid to the underwriters, see "Underwriting."

(2)Total organizational expenses and offering costs are estimated to be approximately \$924,100. The investment manager has agreed to pay organizational expenses and offering costs of the Fund (other than the sales load) that exceed \$0.03 per common share.

The underwriters may also purchase up to an additional 562,500 common shares at the public offering price, less the sales load, within 45 days of the date of this prospectus to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The common shares will be ready for delivery on or about November 29, 2002.

MERRILL LYNCH & CO.

PRUDENTIAL SECURITIES	LEGG MASON WOOD WALKER INCORPORATED	RBC CAPITAL MARKETS
ADVEST, INC.	FERRIS, BAKER WATTS, J.J.B. HILLIARD, W.L. LYONS, INC. INCORPORATED	
MCDONALD INVESTMENTS INC.		QUICK & REILLY, INC.
TD WATERHOUSE		WEDBUSH MORGAN SECURITIES INC.

The date of this prospectus is November 25, 2002.

(CONTINUED FROM PREVIOUS PAGE)

LEVERAGE. The Fund intends to use leverage by issuing preferred shares representing approximately 35% of the Fund's capital after their issuance or, alternatively, through issuing commercial paper or notes or through other borrowings. Through leveraging, the Fund will seek to obtain a higher return for holders of common shares than if the Fund did not use leverage. Leverage is a speculative technique, and there are special risks and costs associated with leveraging. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed. See "Use of Leverage--Leverage Risks."

This prospectus sets forth concisely information about the Fund you should know before investing. You should read the prospectus before deciding whether to invest and retain it for future reference. A Statement of Additional

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Information, dated November 25, 2002 (the "SAI"), containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the SAI on page 50 of this prospectus. You may request a free copy of the SAI by calling (800) 862-4863 or by writing to the Fund. You may also obtain the SAI and other information regarding the Fund on the Securities and Exchange Commission's web site ([HTTP://WWW.SEC.GOV](http://www.sec.gov)).

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Please see page 51 for important privacy policy information.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS. THE FUND HAS NOT, AND THE UNDERWRITERS HAVE NOT, AUTHORIZED ANY OTHER PERSON TO PROVIDE YOU WITH DIFFERENT INFORMATION. IF ANYONE PROVIDES YOU WITH DIFFERENT OR INCONSISTENT INFORMATION, YOU SHOULD NOT RELY ON IT. THE FUND IS NOT, AND THE UNDERWRITERS ARE NOT, MAKING AN OFFER TO SELL THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. YOU SHOULD ASSUME THAT THE INFORMATION IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS. THE FUND'S BUSINESS, FINANCIAL CONDITION AND PROSPECTS MAY HAVE CHANGED SINCE THAT DATE.

Until December 20, 2002 (25 days after the date of this prospectus), all dealers that buy, sell or trade the common shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition

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to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to its unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

THIS IS ONLY A SUMMARY. THIS SUMMARY MAY NOT CONTAIN ALL OF THE INFORMATION THAT YOU SHOULD CONSIDER BEFORE INVESTING IN THE FUND'S COMMON SHARES. YOU SHOULD REVIEW THE MORE DETAILED INFORMATION CONTAINED IN THIS PROSPECTUS AND IN THE SAI, ESPECIALLY THE INFORMATION SET FORTH UNDER THE HEADINGS "PRINCIPAL RISKS OF THE FUND" AND "ADDITIONAL RISK CONSIDERATIONS."

THE FUND..... AEW Real Estate Income Fund (the "Fund") is a newly organized, non-diversified, closed-end management investment company.

THE OFFERING..... The Fund is offering 3,750,000 common shares of beneficial interest ("Common Shares") through a group of underwriters led by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"). You must purchase at least 100 Common Shares (\$1,500). The Fund has granted the underwriters an option to purchase up to 562,500 additional Common Shares to cover over-allotments. The initial public offering price is \$15.00 per share. See "Underwriting." AEW Management and Advisors, L.P. (the "Investment Manager") has agreed to pay organizational expenses and offering costs of the Fund (other than the sales load) that exceed \$0.03 per Common Share.

INVESTMENT OBJECTIVES
AND POLICIES..... The Fund's primary investment objective is high current income. Capital appreciation is a secondary investment objective. There can be no assurance that the Fund's investment objectives will be achieved. The Fund's investment objectives and certain investment policies are considered fundamental and may not be changed without shareholder approval. See "Investment Objectives and Policies."

Under normal market conditions, the Fund will invest at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares and debt securities issued by Real Estate Companies, including real estate investment trusts, or "REITs." A "Real Estate Company" is a company that generally derives at least 50% of its revenue from the ownership, construction, financing, management or sale of commercial, industrial or residential real estate (or has at least 50% of its assets invested in such real estate). As part of this policy, the Fund may also invest in rights or warrants to purchase income-producing common and preferred shares of Real Estate Companies. Under normal market conditions, the Investment Manager expects to invest approximately 60% to 80% of the Fund's

total assets in common shares of Real Estate Companies and approximately 20% to 40% of its total assets in preferred shares, including convertible preferred shares, issued by Real Estate Companies. Under normal market conditions, at least 80% of the Fund's total assets will be invested in income-producing equity securities issued by REITs. A significant portion of the equity securities of the Real Estate Companies in which the Fund invests are expected to trade on a national securities exchange or in the over-the-counter market. A REIT is a Real Estate Company that pools investors' funds for investment primarily in income-producing real estate or in real estate-related loans

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(such as mortgages) or other interests. REITs are generally not taxed on income distributed to shareholders provided they distribute to their shareholders substantially all of their income and otherwise comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). As a result, REITs generally pay relatively high dividends (as compared to other types of companies). The Fund intends to use these REIT dividends in an effort to meet its primary objective of high current income. The Fund will primarily invest in Equity REITs, which invest the majority of their assets directly in real property and derive their income primarily from rents. The Fund may invest up to 20% of its total assets in U.S. Government obligations and debt securities, including convertible debt securities, issued by Real Estate Companies. The preferred shares, convertible preferred shares and debt securities in which the Fund may invest are sometimes collectively referred to in this Prospectus as "Fixed Income Securities." The Fund may invest in Fixed Income Securities that are below investment grade quality. A Fixed Income Security will be considered to be investment grade if, at the time of investment, such security has a rating of "BBB" or higher by Standard & Poor's Ratings Services ("S&P") or "Baa" or higher by Moody's Investors Service, Inc. ("Moody's") or an equivalent rating by another nationally recognized statistical rating agency or, if unrated, is judged to be of comparable quality by the Investment Manager. The Fund will not invest in a non-investment grade Fixed Income Security if, as a result of such investment, more than 25% of the Fund's total assets would be invested in non-investment grade Fixed Income Securities. The Fund may invest up to 10% of its total assets in securities of non-U.S. issuers located in countries that are members of the Organisation For Economic Co-operation and Development. The Fund may invest in securities that are illiquid so long as no more than 10% of

the total assets of the Fund (taken at market value at the time of investment) would be invested in such securities. The Fund will not invest more than 15% of its total assets (taken at market value at the time of investment) in the securities of any one issuer other than the U.S. Government. The Fund may invest in interest rate swap or interest rate cap transactions in order to reduce the interest rate risk inherent in the Fund's underlying investments and capital structure. See "Interest Rate Transactions." The Fund may also purchase or sell futures or options on futures to hedge interest rate risks. See "Investment Objectives and Policies" and "Principal Risks of the Fund."

In anticipation of or in response to adverse market conditions, for cash management purposes, or for defensive purposes, the Fund may temporarily hold all or a portion of its assets in cash, money market instruments, or bonds or other debt securities. The Fund would be unable to achieve its investment objectives if a substantial portion of its assets consisted of such instruments.

USE OF LEVERAGE..... Subject to market conditions and the receipt of the highest credit rating on the Fund Preferred Shares (defined below) from at least one

nationally recognized statistical rating agency (e.g., AAA or Aaa), approximately one to three months after completion of this offering, the Fund intends to offer preferred shares of beneficial interest ("Fund Preferred Shares") representing approximately 35% of the Fund's capital after their issuance. The issuance of Fund Preferred Shares will leverage your investment in the Common Shares. As an alternative to Fund Preferred Shares, the Fund may incur leverage through the issuance of commercial paper or notes or other borrowings. Any Fund Preferred Shares or borrowings will have seniority over the Common Shares.

The use of leverage creates an opportunity for increased Common Share net income, but also creates special risks for holders of Common Shares ("Common Shareholders"). It is anticipated that the Fund Preferred Shares will generally pay dividends based on short-term rates, which will be reset frequently. Borrowings may be at a fixed or floating rate. The Fund may seek to protect itself from the risk of increasing dividends or interest expenses resulting from an increase in short-term interest rates by entering into a swap or cap transaction as to all or a portion of the Fund Preferred Shares or any borrowings. See "Interest

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Rate Transactions." As long as the rate of return, net of applicable Fund expenses, on the Fund's portfolio investments exceeds Fund Preferred Share dividend rates, as reset periodically, interest on any borrowings or the payment rate set by any interest rate swap, the investment of the proceeds of the Fund Preferred Shares or any borrowing will generate more income than will be needed to pay such dividends, interest rate or swap payment. If so, the excess may be available to pay higher dividends to Common Shareholders. If, however, the dividends or interest rate on any borrowings, as modified by any cap, or the payment rate set by any interest rate swap, exceeds the rate of return on the Fund's investment portfolio, the return to Common Shareholders will be less than if the Fund had not used leverage. Fund Preferred Shares are expected to pay cumulative dividends, which may tend to increase leverage risk.

The holders of Fund Preferred Shares, voting as a separate class, will be entitled to elect two members of the Board of Trustees of the Fund and, in the event that the Fund fails to pay two full years of accrued dividends on the Fund Preferred Shares, the holders of the Fund Preferred Shares will be entitled to elect a majority of the members of the Board of Trustees. See "Use of Leverage" and "Description of Shares--Fund Preferred Shares."

There is no assurance that the Fund will utilize leverage or that, if utilized, the Fund's leveraging strategy will be successful. See "Use of Leverage--Leverage Risk."

LEVERAGE RISK. Leverage creates two major types of risks for Common Shareholders:

- . The likelihood of greater volatility of net asset value and market price of Common Shares because changes in the value of the

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Fund's portfolio (including changes in the value of any interest rate swap, if applicable) are borne entirely by the Common Shareholders; and

- . The possibility either that Common Share income will fall if the dividend rate on the Fund Preferred Shares or the interest rate on any borrowings rises, or that Common Share income will fluctuate because the dividend rate on the Fund Preferred Shares or the interest rate on any borrowings varies.

When the Fund is utilizing leverage, the fees paid to the Investment Manager and its affiliates for

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investment advisory, management and other services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's managed assets (which include the liquidation preference on any Fund Preferred Shares and the principal amount of any borrowings used for leverage). As a result, the Investment Manager has a financial incentive for the Fund to issue Fund Preferred Shares or to otherwise incur leverage, which may create a conflict of interest.

INTEREST RATE TRANSACTIONS

In order to reduce the interest rate risk inherent in the Fund's underlying investments and capital structure, the Fund may enter into interest rate swap or cap transactions. The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Common Shareholders will bear the risks and costs associated with the Fund's use of interest rate transactions. In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (the "counterparty") a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund a variable rate payment that is intended to approximate the Fund's variable rate payment obligation on the Fund Preferred Shares or any variable rate borrowing. The payment obligations would be based on the notional amount of the swap. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. Depending on the state of interest rates in general, the Fund's use of interest rate swaps or caps could enhance or decrease the net income of the Common Shares. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, and this could result in a decline in the net asset value of the Common Shares. In addition, if the counterparty to an interest rate swap or cap defaults, the Fund would be obligated to make the payments that it had intended to avoid. Depending on whether the Fund would be entitled to receive net payments from the counterparty on the swap or cap, which in turn would depend on, among other things, the general state of short-term interest rates, such default could negatively impact the performance of the Common Shares. In addition, there is a risk that the Fund will not be able to enter

into suitable interest rate swap or cap

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transactions, or that the terms of an interest rate swap or cap transaction will be less favorable to the Fund than expected. Similarly, at the time an interest rate swap or cap transaction terminates, the Fund may not be able to obtain a replacement transaction, or the terms of any replacement transaction may not be as favorable to the Fund. If these situations occur, they could have a negative impact on the performance of the Fund's Common Shares. If the Fund fails to maintain the required 200% asset coverage of the liquidation value of the outstanding Fund Preferred Shares or if the Fund loses its expected AAA/Aaa rating on the Fund Preferred Shares or fails to maintain other covenants, the Fund may be required to redeem some or all of the Fund Preferred Shares. Similarly, the Fund could be required to prepay the principal amount of any borrowings. Such redemption or prepayment likely would result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of a swap or cap could result in a termination payment by the Fund. The Fund does not intend to enter into interest rate swap or cap transactions having a notional amount that exceeds the outstanding amount of the Fund's leverage. In addition to using swaps and caps, the Fund may also purchase or sell futures contracts or options on futures contracts in an attempt to hedge interest rate risks. See "Use of Leverage" and "Interest Rate Transactions" for additional information.

PRINCIPAL RISKS OF THE FUND

The Fund is a newly organized, non-diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objectives.

The following paragraphs summarize the principal risks to which the Fund and the Common Shares are subject. For a more complete discussion of these risks, see "Principal Risks of the Fund."

NO OPERATING HISTORY. As a newly organized entity, the Fund has no operating history. See "The Fund."

INVESTMENT RISK. An investment in the Fund is subject to investment risk, including the possible loss of the entire principal amount that you invest.

ISSUER RISK. The value of an equity or debt security may decline for a number of reasons that directly relate to the Real Estate Company that issues it, such as management performance, financial leverage and reduced demand for the Real Estate Company's properties and services.

MARKET RISK. Your investment in the Common Shares represents an indirect investment in the REIT shares and other securities of Real Estate Companies owned by the Fund, a significant portion of which

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are expected to trade on a national securities exchange or in the over-the-counter markets. The value of these securities, like other investments traded on securities markets, may move up or down, sometimes rapidly and unpredictably. Preferred shares and debt securities are generally more sensitive to changes in interest rates than common stocks. When interest rates rise, the market value of preferred shares and debt securities generally will fall. Your Common Shares at any point in time may be worth less than what you invested, even after taking into account the reinvestment of Fund dividends and distributions. The Fund may utilize leverage, which magnifies market risk. See "Use of Leverage--Leverage Risks."

INTEREST RATE RISK. Interest rate risk is the risk that fixed-income investments such as preferred shares, U.S. Government obligations and debt securities, and to a lesser extent dividend-paying common stocks such as REIT common shares, will decline in value because of changes in interest rates. When interest rates rise, the market value of such securities generally will fall. The Fund's investment in such securities means that the net asset value and market price of Common Shares will tend to decline if market interest rates rise. Also, during periods of declining interest rates, many mortgages may be refinanced, which may reduce the yield from securities of Real Estate Companies that invest primarily in loans secured by real estate and generally derive their income primarily from interest payments on mortgage loans. This risk is commonly known as "prepayment risk." The Fund intends to use leverage, which may tend to magnify interest rate risk. See "Use of Leverage--Leverage Risks." The Fund may use swaps, caps, futures contracts and options on futures contracts to help control interest rate risk. See "Investment Objectives and Policies--Portfolio Composition--Short Sales and Derivatives" and "Interest Rate Transactions."

GENERAL REAL ESTATE RISKS. Because the Fund concentrates its assets in the real estate industry, your investment in the Fund will be closely linked to the performance of the real estate markets. Property values may fall due to supply and demand disparities, increasing vacancies or declining rents resulting from

economic, legal, cultural or technological developments. Real Estate Company prices also may drop because of the failure of borrowers to pay their loans and poor management. Many Real Estate Companies (including REITs) utilize leverage, which increases investment risk and could adversely affect a Real Estate Company's operations and market value in periods of unfavorable interest rate movements. In addition, there are risks associated with particular sectors of the real estate industry.

RETAIL PROPERTIES. Retail properties are affected by the overall health of the national and relevant local economy and may be adversely affected by the growth of alternative forms of retailing, bankruptcy, departure or cessation of operations of a tenant, a shift in consumer demand due to demographic changes, spending patterns and lease terminations.

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OFFICE PROPERTIES. Office properties are affected by the overall health of the national and relevant local economy, as well as by other factors such as a downturn in the businesses operated by their tenants, obsolescence, non-competitiveness and the high capital expenditures needed to operate such properties.

HOTEL PROPERTIES. The risks of hotel properties include, among other things, the necessity of a high level of continuing capital expenditures, competition, increases in operating costs that may not be offset by increases in revenues, dependence on business and commercial travelers and tourism, increases in fuel costs and other expenses of travel, and adverse effects of general and local economic conditions. Hotel properties tend to be more sensitive to adverse economic conditions and competition than many other commercial properties.

HEALTHCARE PROPERTIES. Healthcare properties and healthcare providers are affected by several significant factors, including federal, state and local laws governing licenses, certification, adequacy of care, pharmaceutical distribution, rates, equipment, personnel and other factors regarding operations; continued availability of revenue from government reimbursement programs (primarily Medicaid and Medicare) and from private sector health insurance providers; and competition on a local and regional basis. The failure of any healthcare operator to comply with governmental laws and regulations may affect its ability to operate its facility or receive government reimbursements.

MULTIFAMILY/RESIDENTIAL PROPERTIES. The value and

successful operation of a multifamily/residential property may be affected by a number of factors such as the location of the property, the ability of the management team, the type of services provided by the property, the level of mortgage rates, the presence of competing properties, adverse economic conditions in the locale, the relocation of tenants to new properties with better amenities, oversupply, and rent control laws or other laws affecting such properties.

SELF-STORAGE PROPERTIES. The value and successful operation of a self-storage property may be affected by a number of factors, such as the ability of the management team, the location of the property, the presence of competing properties, changes in traffic patterns, and adverse effects of general and local economic conditions.

INSURANCE RISK. Certain of the Real Estate Companies in which the Fund invests may carry comprehensive liability, fire, flood, earthquake extended coverage and rental loss insurance with various policy specifications, limits and deductibles. Should any type of uninsured loss occur (or if an insurer is unwilling or unable to pay on a claim), the Real Estate Company could lose its investment in, and anticipated profits and cash flows from, a number of properties. Such a loss would impact the Fund's investment performance.

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FINANCIAL LEVERAGE RISK. Real Estate Companies may be highly leveraged and financial covenants may affect the ability of Real Estate Companies to operate effectively or pay dividends. If the principal payments of a Real Estate Company's debt cannot be refinanced, extended or paid with proceeds from other capital transactions, such as new equity capital, the Real Estate Company's cash flow may not be sufficient to pay dividends or to repay all maturing debt outstanding, which would impact the Fund's investment performance.

ENVIRONMENTAL ISSUES. In connection with the ownership (direct or indirect), operation, management and development of real properties that may contain hazardous or toxic substances, a Real Estate Company may be considered an owner, operator or responsible party of such properties and, therefore, may be potentially liable for removal or remediation costs as well as certain other costs, including governmental fines and liabilities for injuries to persons and property. The existence of any such environmental liability could have a material adverse effect on the results of operations and cash flow of any such

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Real Estate Company and, as a result, the net asset value of the Common Shares or the amount available to make distributions on shares of the Fund could be reduced.

SMALLER COMPANIES. Even the larger Real Estate Companies in the industry tend to be small to medium-sized companies in relation to the equity markets as a whole. Real Estate Company shares, therefore, can be more volatile than, and perform differently from, larger company stocks. There may be less trading in a smaller company's stock, which means that buy and sell transactions in that stock could have a larger impact on the stock's price than is the case with larger company stocks. Further, smaller companies may have fewer business lines; changes in any one line of business, therefore, may have a greater impact on a smaller company's stock price than is the case for a larger company. Smaller company shares may also perform differently in different cycles than larger company shares. Accordingly, Real Estate Company shares can be more volatile than--and at times will perform differently from--large company shares such as those found in the Dow Jones Industrial Average.

As of September 30, 2002, the market capitalization of REITs ranged in size from approximately \$5 million to approximately \$11 billion.

TAX ISSUES. REITs are subject to a highly technical and complex set of provisions in the Code. It is possible that the Fund may invest in a Real Estate Company that purports to be a REIT but does not satisfy all of the conditions of REIT status in any year. In some cases, the Real Estate Company may still be able to qualify for REIT status after payment of a penalty tax. Otherwise, a Real Estate Company that fails to qualify for REIT status would be subject to corporate-level taxation. In either case, the return to the Fund on its investment in such company would be reduced. REITs could possibly fail to qualify for tax free pass-through of income under the Code, or to maintain their

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exemptions from registration under the Investment Company Act of 1940, as amended (the "1940 Act"). The above factors may also adversely affect the Fund's investment in such a REIT. In the event of a default by a borrower or lessee, the REIT may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments.

LOWER-RATED SECURITIES RISK. Lower-rated

preferred stock or debt securities, or equivalent unrated securities, which are commonly known as "junk bonds," generally involve greater volatility of price and risk of loss of income and principal, and may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher grade securities. It is reasonable to expect that any adverse economic conditions could disrupt the market for lower-rated securities, have an adverse impact on the value of those securities, and adversely affect the ability of the issuers of those securities to repay principal and interest on those securities.

INTEREST RATE TRANSACTIONS RISK. The Fund may enter into a swap or cap transaction to attempt to protect itself from increasing dividend or interest expenses resulting from increasing short-term interest rates. A decline in interest rates may result in a decline in the value of the swap or cap, which may result in a decline in the net asset value of the Fund. A sudden and dramatic decline in interest rates may result in a significant decline in the net asset value of the Fund. See "Interest Rate Transactions." These transactions may also reduce the opportunity for gain by offsetting any positive effect of favorable movements in the hedged interest rates.

RISKS OF FUTURES AND OPTIONS ON FUTURES. The use by the Fund of futures contracts and options on futures contracts to hedge interest rate risks can reduce the opportunity for gain by offsetting the positive effect on favorable movements in the hedged interest rates. The Fund could lose money if the counterparty to a futures contract or option on a futures contract is unwilling or unable to honor its obligations to the Fund. Furthermore, there is no assurance that a liquid secondary market will exist for any particular futures contract or option thereon at any particular time. If the Fund were unable to liquidate a futures contract or an option on a futures contract position due to the absence of a liquid secondary market or the imposition of price limits, it could incur substantial losses. The Fund would continue to be subject to market risk and counterparty risk with respect to the position.

FOREIGN SECURITY RISK. The prices of foreign securities may be affected by factors not present with U.S. securities, including currency exchange rates, political and economic conditions, less stringent regulation and higher volatility. As a result, many foreign securities may be less liquid and more volatile than U.S. securities.

LIQUIDITY RISK. The Fund may invest in securities that are illiquid so long as no more than 10% of the total assets of the Fund (taken at market value at the time of investment) would be invested

in such

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securities. Illiquid securities are those that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the Fund has valued the securities. Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wide fluctuations in market value. Also, the Fund may not be able to dispose of illiquid securities when that would be beneficial at a favorable time or price.

RISKS OF WARRANTS AND RIGHTS. Warrants and rights are subject to the same market risks as stocks, but may be more volatile in price. An investment in warrants or rights may be considered speculative. The purchase of warrants or rights involves the risk that the Fund could lose the purchase value of a warrant or right if the right to subscribe to additional shares is not exercised prior to the warrant's or right's expiration. Also, the purchase of warrants and rights involves the risk that the effective price paid for the warrant or right, added to the subscription price of the related security, may exceed the subscribed security's market price, such as when there is no movement in the price of the underlying security or when the market price of the underlying security decreases.

INFLATION RISK. Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the present value of future payments. As inflation increases, the real value of the Common Shares and distributions can decline and the dividend payments on the Fund Preferred Shares, if any, or interest payments on any borrowings may increase, which would tend further to reduce returns to Common Shareholders.

MARKET PRICE DISCOUNT FROM NET ASSET VALUE. Shares of closed-end investment companies frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that net asset value would decrease as a result of investment activities and may be greater for investors expecting to sell their shares a relatively short time following completion of this offering. The Fund cannot predict whether the Common Shares will trade at, above or below net asset value. The Common Shares are designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes.

ADDITIONAL RISK

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CONSIDERATIONS..... In addition to the principal risks summarized above, the Fund and the Common Shares are also subject to additional risks. See "Additional Risk Considerations" for a more complete description of the additional risks described below.

PORTFOLIO TURNOVER. The Fund may engage in frequent and active portfolio trading when considered appropriate, but it will not use short-term trading as the primary means of achieving its investment objectives. There are no limits on the rate of portfolio turnover. A higher turnover rate results in correspondingly greater brokerage commissions and other transactional expenses, which are borne by the Fund. High portfolio turnover may result in the realization of net short-

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term capital gains by the Fund that, when distributed to shareholders, will be taxable as ordinary income.

NON-DIVERSIFIED STATUS. Because the Fund, as a "non-diversified" investment company under the 1940 Act, can invest a greater portion of its assets in obligations of a single issuer than, and invest in a smaller number of individual issuers than, a "diversified" fund, an investment in the Fund presents greater risk to you than an investment in a diversified company. The Fund will be more susceptible than a diversified fund to being adversely affected by any single corporate, economic, political or regulatory occurrence. See "Investment Objectives and Policies." To help control this risk, the Fund will not invest more than 15% of its total assets (taken at market value at the time of investment) in the securities of any one issuer other than the U.S. Government. In addition, the Fund intends to diversify its investments to the extent necessary to maintain its status as a regulated investment company under the Code. See "Taxation" in the SAI.

ANTI-TAKEOVER PROVISIONS. The Fund's Amended and Restated Agreement and Declaration of Trust (the "Declaration") includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status. These provisions may have the effect of depriving you of an opportunity to sell your shares at a premium over prevailing market prices. See "Certain Provisions in Declaration of Trust."

RECENT DEVELOPMENTS. As a result of the terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001, some of the U.S. securities markets were closed for a four-day period. These

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terrorist attacks and related events have led to increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. A similar disruption of the financial markets could impact interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Common Shares and the Fund Preferred Shares.

CERTAIN AFFILIATIONS. Certain broker-dealers may be considered to be affiliated persons of the Fund and/or the Investment Manager due to their possible affiliations with the Investment Manager's parent, CDC IXIS Asset Management North America, L.P. Absent an exemption from the Securities and Exchange Commission or other regulatory relief, the Fund is generally precluded from effecting certain principal transactions with affiliated brokers, and its ability to purchase securities being underwritten by an affiliated broker or a syndicate including an affiliated broker or to utilize affiliated brokers for agency transactions is subject to regulatory and other restrictions. This could limit the Fund's ability to engage in securities transactions and take advantage of market opportunities.

Given the risks described above, an investment in the Fund may not be appropriate for all investors. You should carefully consider your ability to assume these risks before making an investment in the Fund.

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INVESTMENT MANAGER, ADMINISTRATOR AND SUB-ADMINISTRATOR...

AEW Management and Advisors, L.P. will be the Fund's investment manager. The Investment Manager is a real estate investment advisory firm that provides investment management and related services to institutional and retail investors. Together with its affiliates operating under the AEW name, the Investment Manager managed approximately \$6.9 billion of client capital as of September 30, 2002. The Investment Manager is a subsidiary of CDC IXIS Asset Management North America, L.P., which, together with its subsidiaries and affiliates in the U.S., Europe and Asia, managed approximately \$291 billion in assets for institutions and individuals as of September 30, 2002. An affiliate of the Investment Manager, CDC IXIS Asset Management Services, Inc. ("CDC IXIS Services"), will have responsibility for providing or procuring administrative services for the Fund and assisting the Fund with operational needs pursuant to an Administrative Services Agreement. As permitted by the Administrative Services Agreement, CDC IXIS Services has entered into an agreement with

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Investors Bank & Trust Company to perform certain administrative functions subject to the supervision of CDC IXIS Services (the "Sub-Administration Agreement"). See "Management of the Fund--Administrative Services and Sub-Administration Agreements."

FEES AND EXPENSES..... The Fund will pay the Investment Manager a monthly fee computed at the annual rate of 0.80% of average daily managed assets (which include the liquidation preference of any Fund Preferred Shares and the principal amount of any borrowings used for leverage). The Investment Manager has contractually agreed to waive a portion of its investment management fees in the amount of 0.25% of average daily managed assets for the first five years of the Fund's operations (through November 29, 2007), and in declining amounts for each of the four years thereafter (through November 29, 2011). See "Management of the Fund--Investment Management Agreement."

Under the Administrative Services Agreement, the Fund pays CDC IXIS Services a monthly administration fee computed on the basis of the average daily managed assets of the Fund at an annual rate equal to 0.06% of the first \$300 million in assets and 0.0575% of assets in excess of \$300 million, with a minimum annual fee of \$150,000. Under the Sub-Administration Agreement, CDC IXIS Services (and not the Fund) pays Investors Bank & Trust Company, the Fund's sub-administrator, a monthly fee computed on the basis of the managed assets of the Fund at an annual rate equal to 0.015% of the first \$300 million in assets and 0.012% thereafter. See "Management of the Fund--Administrative Services and Sub-Administration Agreements."

When the Fund is utilizing leverage, the fees paid to the Investment Manager and its affiliates for investment advisory, management and other services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's managed assets, which include the liquidation preference of any Fund Preferred Shares and the principal amount of any borrowings used for leverage.

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As a result, the Investment Manager has a financial incentive for the Fund to issue Fund Preferred Shares or to otherwise incur leverage, which may cause a conflict of interest. The Fund's investment management fees and other expenses are borne only by the Common Shareholders, and not by holders of the Fund Preferred Shares. See "Use of Leverage."

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LISTING AND SYMBOL..... The Common Shares have been approved for listing on the American Stock Exchange under the symbol "RIF."

DIVIDENDS AND DISTRIBUTIONS Commencing with the Fund's first dividend, the Fund intends to make regular monthly cash distributions to Common Shareholders at a level rate based on the projected performance of the Fund, which rate may be adjusted from time to time. The Fund's ability to maintain a level dividend rate will depend on a number of factors, including the stability of income received from its investments and dividends payable on the Fund Preferred Shares or interest payments on borrowings. As portfolio and market conditions change, the rate of dividends on the Common Shares and the Fund's dividend policy will likely change. Over time, the Fund will distribute all of its net investment income (after payment of expenses, dividends on any Fund Preferred Shares and interest on any borrowings). In addition, at least annually, the Fund intends to distribute net capital gain and taxable ordinary income, if any, to you so long as the net capital gain and taxable ordinary income are not necessary to pay expenses or to pay accrued dividends on, or redeem or liquidate, any Fund Preferred Shares, or pay interest on any borrowings. The Fund expects to declare the initial monthly dividend on the Common Shares within 45 days of the completion of this offering and to pay the initial monthly dividend within approximately 60 to 90 days after the completion of this offering, depending on market conditions. Following the completion of this offering, the Fund intends to file an exemptive application with the Securities and Exchange Commission seeking an order under the 1940 Act facilitating the implementation of a dividend policy calling for monthly distributions of a fixed percentage of its net asset value ("Managed Dividend Policy"). If and when the Fund receives the requested relief, the Fund may, subject to the determination of its Board of Trustees, implement a Managed Dividend Policy. See "Dividends and Distributions."

DIVIDEND REINVESTMENT PLAN Unless you elect to receive distributions in cash, you will receive distributions in additional Common Shares purchased in the open market or issued by the Fund through the Fund's Dividend Reinvestment Plan. Shareholders whose Common Shares are held in the name of a broker or nominee should contact the broker or nominee to confirm that the dividend reinvestment service is available. See "Dividends and Distributions" and "Tax Matters."

CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REGISTRAR..... Investors Bank & Trust Company will act as custodian, and EquiServe Trust Company, N.A. and

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its affiliate EquiServe, Inc. (together, "EquiServe") will act as transfer agent, dividend disbursing agent and registrar for the Fund. See "Custodian, Transfer Agent, Dividend Disbursing Agent and Registrar."

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SUMMARY OF FUND EXPENSES

The following table assumes the issuance of Fund Preferred Shares in an amount equal to 35% of the Fund's capital (after their issuance), and shows Fund expenses as a percentage of net assets attributable to Common Shares. Footnote 2 to the table also shows Fund expenses as a percentage of net assets attributable to Common Shares, but assumes that no Fund Preferred Shares are issued or outstanding (such as will be the case prior to the Fund's expected issuance of Fund Preferred Shares).

SHAREHOLDER TRANSACTION EXPENSES

Sales Load Paid by You (as a percentage of offering price). 4.50%
 Dividend Reinvestment Plan Fees..... None(1)

PERCENTAGE OF NET ASSETS
 ATTRIBUTABLE TO COMMON SHARES
 (ASSUMING THE ISSUANCE OF
 FUND PREFERRED SHARES) (2) (3)

ANNUAL EXPENSES

Management Fees.....	1.22%
Other Expenses.....	.99%//

Total Annual Expenses.....	2.21%
Fee Waiver (Years 1-5) (4).	(0.38)%(5)

Net Annual Expenses(4)....	1.83%(5)
	=====

 (1) You will pay brokerage charges if you direct the plan agent to sell your Common Shares held in a dividend reinvestment account.

(2) The table presented in this footnote estimates what the Fund's annual expenses would be stated as a percentage of the Fund's net assets attributable to Common Shares but, unlike the table above, assumes that no Fund Preferred Shares are issued or outstanding. This will be the case, for instance, prior to the Fund's expected issuance of Fund Preferred Shares. In accordance with these assumptions, the Fund's expenses would be estimated to be as follows:

PERCENTAGE OF NET ASSETS
 ATTRIBUTABLE TO COMMON SHARES
 (ASSUMING NO FUND PREFERRED

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SHARES ARE ISSUED OR
OUTSTANDING)

ANNUAL EXPENSES	
Management Fees.....	.80%
Other Expenses.....	.78%

Total Annual Expenses.....	1.58%
Fee Waiver (Years 1-5) (4).	(.25)%(5)

Net Annual Expenses(4)....	1.33%(5)
	====

(3) If the Fund offers Fund Preferred Shares, costs of that offering, estimated to be approximately 2.1% of the total dollar amount of the Fund Preferred Share offering, will be borne immediately by Common Shareholders and result in a reduction of the net asset value of the Common Shares. Assuming the issuance of Preferred Shares in an amount equal to 35% of the Fund's capital (after their issuance), these offering costs are estimated to be approximately \$588,700 or \$0.157 per Common Share (1.05% of the offering price). These offering costs are not included among the expenses shown in this table.

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(FOOTNOTES CONTINUED FROM PREVIOUS PAGE)

(4) Year 1 represents the period from commencement of operations through November 29, 2003.

(5) The Investment Manager has contractually agreed to waive a portion of its investment management fees in the amount of 0.25% of average daily managed assets (which include the liquidation preference of any Fund Preferred Shares and the principal amount of any borrowings used for leverage) for the first five years of the Fund's operations, 0.20% of average daily managed assets in year six, 0.15% of average daily managed assets in year seven, 0.10% of average daily managed assets in year eight and 0.05% of average daily managed assets in year nine. The Investment Manager has not agreed to waive any portion of its fees beyond year nine of the Fund's operations. Without the fee waiver, "Net Annual Expenses" would be estimated to be 2.21% of average daily net assets attributable to Common Shares (assuming the issuance of Fund Preferred Shares) and 1.58% of average daily net assets attributable to Common Shares (assuming no Fund Preferred Shares are issued or outstanding). The Investment Manager has also agreed to pay all organizational expenses and offering costs (other than the sales load) that exceed \$0.03 per Common Share (0.20% of the offering price).

The purpose of the table above is to help you understand all fees and expenses that you, as a Common Shareholder, would bear directly or indirectly. The Other Expenses shown in the table and related footnotes are based on estimated amounts for the Fund's first year of operations and assume that the Fund issues approximately 3,750,000 Common Shares. If the Fund issues fewer Common Shares, all other things being equal, these expenses as a percentage of net assets would increase.

As required by relevant Securities and Exchange Commission regulations, the following example illustrates the expenses (including the sales load of

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\$45, estimated offering expenses of this offering of \$2.00 and the estimated offering costs of issuing Fund Preferred Shares, assuming the Fund issues Fund Preferred Shares representing 35% of the Fund's capital (after their issuance), of \$10.46) that you would pay on a \$1,000 investment in Common Shares, assuming (1) total net annual expenses of 1.83% of net assets attributable to Common Shares (assuming the issuance of Fund Preferred Shares) in years 1 through 5, increasing to 2.21% in year ten and (2) a 5% annual return(1).

	1 YEAR	3 YEARS	5 YEARS	10 YEARS (2)
-----	-----	-----	-----	-----
Total Expenses Incurred	\$75	\$112	\$151	\$273

(1) THE EXAMPLE ABOVE SHOULD NOT BE CONSIDERED A REPRESENTATION OF FUTURE EXPENSES. ACTUAL EXPENSES MAY BE HIGHER OR LOWER THAN THOSE SHOWN. The example assumes that the estimated "Other Expenses" set forth in the Annual Expenses table are accurate, that fees and expenses increase as described in note 2 below, and that all dividends and distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% annual return shown in the example.

(2) Assumes waiver of management fees at the annual rate of 0.20% of the Fund's average daily managed assets in year six, 0.15% in year seven, 0.10% in year eight, and 0.05% in year nine. The Investment Manager has not agreed to waive any portion of its fees beyond year nine of the Fund's operations. See "Management of the Fund--Investment Management Agreement."

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THE FUND

AEW Real Estate Income Fund is a newly organized, non-diversified, closed-end management investment company. The Fund was organized as a Massachusetts business trust on September 18, 2002 and is registered as an investment company under the 1940 Act. As a newly-organized entity, the Fund has no operating history. The Fund's principal office is located at 399 Boylston Street, Boston, Massachusetts 02116, and its telephone number is (800) 862-4863.

USE OF PROCEEDS

The net proceeds of the offering of Common Shares will be approximately \$53,606,250 (or \$61,647,188 if the underwriters exercise the over-allotment option in full) after payment of the estimated organizational and offering costs and the sales load. The Investment Manager has agreed to pay the amount by which the aggregate of all of the Fund's organizational expenses and offering costs (other than the sales load) exceeds \$0.03 per Common Share. The Fund will invest the net proceeds of the offering in accordance with the Fund's investment objectives and policies as stated below. It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds in securities of Real Estate Companies that meet its investment objectives and policies within three months after the completion of the offering. Pending such investment, it is anticipated that the proceeds will be invested in U.S. Government Securities or other high quality short-term securities.

INVESTMENT OBJECTIVES AND POLICIES

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GENERAL

The Fund's primary investment objective is high current income. Capital appreciation is the Fund's secondary investment objective. There can be no assurance that the Fund will achieve its investment objectives. The Fund's investment objectives are fundamental and may not be changed without the approval of shareholders. Unless otherwise indicated, the Fund's investment policies are not fundamental and may be changed by the Board of Trustees without the approval of shareholders. The Fund has a policy of concentrating its investments (investing 25% or more of its assets) in the U.S. real estate industry and not in any other industry. This investment policy is considered fundamental and may not be changed without the approval of a majority of the Fund's outstanding voting securities, as defined in the 1940 Act. Under normal market conditions, the Fund will invest at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares (preferred shares that, during certain periods or upon the happening of certain events, may be converted into common shares) and debt securities issued by Real Estate Companies, including real estate investment trusts, or "REITs." Under normal market conditions, at least 80% of the Fund's total assets will be invested in income-producing equity securities issued by REITs. A significant portion of the equity securities of Real Estate Companies in which the Fund invests are expected to trade on a national securities exchange or in the over-the-counter markets. The Fund may invest up to 20% of its total assets in U.S. Government obligations and debt securities, including convertible debt securities, issued by Real Estate Companies. The preferred shares, convertible preferred shares and debt securities in which the Fund may invest are sometimes collectively referred to in this Prospectus as "Fixed Income Securities." The Fund may invest in Fixed Income Securities that are below investment grade quality, including securities that are unrated but judged to be of comparable quality by the Investment Manager. A Fixed Income Security will be considered to be investment grade if, at the time of investment, such security has a rating of "BBB" or higher by S&P or "Baa" or higher by Moody's or an equivalent rating by a nationally recognized statistical rating agency or, if unrated, is judged to be of comparable quality by the Investment Manager. The Fund will not invest in a non-investment grade Fixed Income Security if, as a result of such investment, more than 25% of the Fund's total assets would be invested in non-investment grade Fixed Income Securities. At least 90% of the Fund's total assets will be invested in securities of U.S. issuers. The Fund may invest in securities that are illiquid so long as no more than 10% of the total assets of the Fund (taken at market value at the time of investment) would be invested in such securities. The Fund may invest up to 10% of its total assets in securities of non-U.S. issuers located in countries that are members of the Organisation For Economic Co-operation and Development. The Fund will not invest more than

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15% of its total assets (taken at market value at the time of investment) in the securities of any one issuer other than the U.S. Government, nor will it invest directly in real estate or in securities of Real Estate Companies that are controlled by the Investment Manager, CDC IXIS Asset Management North America, L.P. or their respective affiliates.

In anticipation of or in response to adverse market conditions, for cash management purposes or for defensive purposes, the Fund may temporarily hold all or a portion of its assets in cash, money market instruments, or bonds or other debt securities. The Fund would be unable to achieve its investment objectives if a substantial portion of its assets consisted of such instruments.

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The Fund will not enter into short sales or invest in derivatives, except for interest rate hedging purposes as described in this prospectus. See "Use of Leverage" and "Interest Rate Transactions."

INVESTMENT PHILOSOPHY

The Investment Manager employs a value-oriented investment strategy designed to identify securities that are priced below what it believes is their intrinsic value. The Investment Manager believes that ultimately the performance of Real Estate Companies' securities is dependent upon the performance of the underlying real estate assets and company management as well as the overall influence of capital markets. Consequently, when selecting securities for the Fund, the Investment Manager draws upon the combined expertise of its real estate, research and securities professionals.

INVESTMENT PROCESS

When selecting investments for the Fund, the Investment Manager generally considers the following factors that it believes help to identify those Real Estate Companies whose securities represent the greatest value and income and/or price appreciation potential:

VALUATION. The Investment Manager has developed a proprietary model to assess the relative value of each security in the Fund's investment universe. This model is designed to estimate what a Real Estate Company's anticipated cash flows are worth to a security investor (a capital markets value) and to a direct real estate investor (a real estate value). The model helps the Investment Manager to identify securities that it believes trade at discounts to either or both of these model values relative to similar securities. The Investment Manager will generally sell a security once it is considered overvalued or when the Investment Manager believes that there is greater relative value in other securities in the Fund's investment universe.

PRICE. The Investment Manager examines the historic pricing of each Real Estate Company in the Fund's universe of potential investments. Those securities that have under-performed in price, either in absolute terms or relative to the Fund's universe in general, are generally given greater weight than those that have over-performed.

INCOME. The Investment Manager further evaluates Real Estate Companies by analyzing their dividend yields as well as other factors that influence the sustainability and growth of dividends. These factors include cash flow, leverage and payout ratios.

CATALYSTS. When evaluating a security, the Investment Manager also seeks to identify potential catalysts that, in its opinion, could cause the marketplace to re-value the security in the near term. These catalysts can be macroeconomic, market-driven or company-specific in nature.

In order to control risk, the Investment Manager will endeavor to maintain a portfolio that is broadly diversified within the U.S. real estate industry, with exposure to securities representing major property types and geographic areas. However, the Investment Manager's stock selection disciplines and fundamental real estate

market and property type analyses may lead the Investment Manager to overweight or underweight particular property types and/or geographic regions from time to time.

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PORTFOLIO COMPOSITION

The Fund's portfolio will be composed principally of the following investments. A more detailed description of the Fund's investment policies and restrictions and more detailed information about the Fund's portfolio investments are contained in the SAI.

REAL ESTATE COMPANIES. For purposes of these investment policies, a Real Estate Company is one that:

- . generally derives at least 50% of its revenues from the ownership, construction, financing, management or sale of commercial, industrial, or residential real estate; or
- . has at least 50% of its assets invested in such real estate.

Under normal market conditions, the Fund will invest at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares (preferred shares that, during certain periods or upon the happening of certain events, may be converted into common shares) and debt securities issued by Real Estate Companies, including REITs. As part of this policy, the Fund may also invest in rights or warrants to purchase income-producing common and preferred shares of Real Estate Companies.

REAL ESTATE INVESTMENT TRUSTS. Under normal market conditions, at least 80% of the Fund's total assets will be invested in income-producing equity securities issued by REITs. A REIT is a Real Estate Company that pools investors' funds for investment primarily in income-producing real estate or in real estate-related loans (such as mortgages) or other interests. A REIT is not taxed on income distributed to shareholders if, among other things, it distributes to its shareholders substantially all of its taxable income (other than net capital gains) for each taxable year. As a result, REITs tend to pay relatively higher dividends than other types of companies. The Fund intends to use these REIT dividends in an effort to meet its primary objective of high current income.

REITs can generally be classified as Equity REITs, Mortgage REITs and Hybrid REITs. Equity REITs generally invest a majority of their assets in income-producing real estate properties in order to generate cash flow from rental income and gradual asset appreciation. The income-producing real estate properties in which Equity REITs invest typically include properties such as office buildings, retail and industrial facilities, hotels, apartment buildings and healthcare facilities. Equity REITs can realize capital gains by selling properties that have appreciated in value. Mortgage REITs invest the majority of their assets in real estate mortgages and derive their income primarily from interest payments on the mortgages. Hybrid REITs combine the characteristics of both Equity REITs and Mortgage REITs. The Fund does not currently intend to invest more than 10% of its total assets in Mortgage REITs or Hybrid REITs.

REITs can be listed and traded on national securities exchanges or can be traded privately between individual owners. The Fund may invest in both publicly and privately traded REITs.

PREFERRED SHARES. Preferred shares pay fixed or floating dividends to investors, and have a "preference" over common stock in the payment of dividends and the liquidation of a company's assets. This means that a company must pay dividends on preferred shares before paying any dividends on its common shares. Preferred shareholders usually have no right to vote for corporate directors or on other matters. Under normal market conditions, the Investment Manager expects to invest approximately 60% to 80% of the Fund's total assets in common shares of Real Estate Companies and approximately 20% to

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40% of its total assets in preferred shares, including convertible preferred shares, issued by Real Estate Companies. The actual percentage of common, preferred and convertible preferred shares, rights and warrants, U.S. Government obligations and debt securities in the Fund's portfolio may vary over time based on the Investment Manager's assessment of market conditions.

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U.S. GOVERNMENT OBLIGATIONS. The Fund may invest in U.S. Government obligations, provided that such investments, together with the Fund's investments in debt securities (including convertible debt securities) do not exceed 20% of the Fund's total assets, taken at market value at the time of investment. Obligations issued or guaranteed by the U.S. Government, its agencies and instrumentalities include bills, notes and bonds. Obligations of certain agencies and instrumentalities of the U.S. Government are supported by the full faith and credit of the U.S. Treasury; others are supported by the right of the issuer to borrow from the Treasury; others are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations; still others, though issued by an instrumentality chartered by the U.S. Government, are supported only by the credit of the instrumentality. The U.S. Government may choose not to provide financial support to U.S. Government-sponsored agencies or instrumentalities if it is not legally obligated to do so.

LOWER-RATED SECURITIES. The Fund may invest in non-investment grade quality Fixed Income Securities. Non-investment grade quality Fixed Income Securities are those that are not rated "Baa" or "BBB" or above by Moody's or S&P (or a comparable rating by another nationally recognized statistical rating agency) or, if unrated, are judged to be of comparable quality by the Investment Manager. If a Fixed Income Security is rated differently by two or more nationally recognized statistical rating agencies, the Investment Manager may rely on the higher rating if it believes that rating to be more accurate. The Fund will not invest in a non-investment grade Fixed Income Security if, as a result of such investment, more than 25% of the Fund's total assets would be invested in non-investment grade Fixed Income Securities. In the event that a downgrade of one or more investment grade quality Fixed Income Securities causes the Fund to exceed this 25% limit, the Investment Manager will determine, in its discretion, whether to sell any non-investment grade Fixed Income Securities to reduce the percentage to below 25% of the Fund's total assets. It is possible, therefore, that the value of non-investment grade Fixed Income Securities could exceed 25% of the Fund's total assets for an indefinite period of time. The 25% restriction described above does not limit the Fund's ability to invest in securities other than Fixed Income Securities (such as common shares of Real Estate Companies). The Investment Manager will monitor the credit quality of the issuers of the Fund's Fixed Income Securities.

Securities that are below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal. Debt securities that are below investment grade quality are commonly referred to as "junk bonds." The Fund may only invest in non-investment grade securities that are rated "CCC" or higher by S&P or "Caa" or higher by Moody's (or a comparable rating by another nationally recognized statistical rating agency), or unrated securities judged to be of comparable quality by the Investment Manager. The issuers of these securities may be in default or have a currently identifiable vulnerability to default on their payments of principal and interest, or may otherwise be subject to present elements of danger with respect to payments of principal or interest. However, the Fund may not invest in securities that are in default as to payment of principal and interest at the time of investment. See "Principal Risks of the

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Fund--Risks Of Investment In Lower-Rated Securities." For a description of security ratings, see Appendix A to the SAI.

ILLIQUID SECURITIES. The Fund may invest in securities that are illiquid so long as no more than 10% of the total assets of the Fund (taken at market value at the time of investment) would be invested in such securities. The term "illiquid securities" for these purposes means securities that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the Fund has valued the securities. The above limitation applies only at the time a security is purchased, and the Fund is not required to dispose of securities if, due to market movements, greater than 10% of the Fund's total assets are invested in illiquid securities.

The Board of Trustees has delegated to the Investment Manager the day-to-day determination of the illiquidity of any security held by the Fund, although it has retained oversight and ultimate responsibility for such determinations. Certain illiquid securities may require pricing at fair value as determined in good faith under the supervision of the Board of Trustees. See "Net Asset Value." The Investment Manager may be subject to significant delays in disposing of illiquid securities held by the Fund, and transactions in illiquid securities may

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entail registration expenses and other transaction costs that are higher than those for transactions in liquid securities. If adverse market conditions were to develop during any such delay, the Fund might obtain a less favorable price than that which prevailed when it decided to sell.

As discussed below under "Interest Rate Transactions," the Fund intends to segregate cash or liquid securities with its custodian having a value at least equal to the Fund's net payment obligations under any swap transaction, as marked to market daily. The Fund will treat such amounts as illiquid for purposes of its 10% limit on investments in illiquid securities.

SHORT SALES AND DERIVATIVES. The Fund will not enter into short sales or invest in derivatives, except for interest rate hedging purposes as described in this prospectus. See "Use of Leverage" and "Interest Rate Transactions."

The Fund will only enter into futures contracts to hedge interest rate risks. A futures contract is a two party agreement to buy or sell a specified amount of a specified security, such as a U.S. Treasury security, for a specified price at a designated date, time and place. Brokerage fees are incurred when a futures contract is bought or sold, and margin deposits must be maintained at all times when a futures contract is outstanding. The Fund may purchase and sell futures contracts as an offset against the effect of expected changes in interest rates. The Fund will only enter into futures contracts that are traded on domestic futures exchanges and are standardized as to maturity date and underlying financial instrument.

The Fund will only purchase or sell options on futures contracts to hedge interest rate risks. Options on futures contracts give the purchaser the right, in return for the premium paid, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put) at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures contract position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures contract margin account. If the Fund sells ("writes") options on futures contracts, it will segregate cash or liquid securities in an amount necessary to cover its

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obligations under the option, and will mark such amounts to market daily.

NON-PRINCIPAL INVESTMENT STRATEGIES

In addition to the investment strategies discussed above, the Fund may also invest in other portfolio instruments or use other investment strategies, including those listed below. For additional information about the Fund's investments, please see the SAI.

WARRANTS AND RIGHTS. The Fund may invest in warrants or rights to purchase income-producing common and preferred shares of Real Estate Companies. Warrants are options to purchase equity securities at a specified price for a specified period of time. Their prices do not necessarily move parallel to the prices of the underlying securities. Rights are similar to warrants but normally have a shorter duration and are typically distributed directly by the issuer to shareholders. Rights and warrants generally have no voting rights, receive no dividends and have no rights with respect to the assets of the issuer.

TEMPORARY AND DEFENSIVE INVESTMENTS. In anticipation of or in response to adverse market conditions, for cash management purposes or for defensive purposes, the Fund may temporarily hold all or a portion of its assets in cash, money market instruments, or bonds or other debt securities. The Fund would be unable to achieve its investment objectives if a substantial portion of its assets consisted of such instruments.

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SECURITIES LENDING. The Fund may lend its portfolio securities (generally to broker-dealers and other financial institutions) where such loans are callable at any time and are continuously secured by segregated collateral equal to no less than the market value, determined daily, of the loaned securities. The Fund's net asset value would continue to reflect the value of the loaned securities, and the Fund would continue to receive the income on the loaned securities and would at the same time earn interest on the collateral or on the investment of any cash collateral. The Fund presently intends to invest such cash collateral in money market instruments listed below in "--Other Investments." The Fund will not lend portfolio securities representing more than one-third of its total assets. The Fund may pay lending fees to the party arranging the loan.

Lending securities involves a risk of loss to the Fund if and to the extent that the market value of the securities loaned increases and the collateral is not increased accordingly. Securities lending also involves the risk of loss of rights in the collateral or delay in recovery of the collateral if the borrower fails to return the security loaned or becomes insolvent.

FUNDAMENTAL INVESTMENT POLICIES

The Fund has adopted certain fundamental investment policies designed to limit investment risk and maintain portfolio diversification. These fundamental investment policies may not be changed without the approval of the holders of a majority of the outstanding Common Shares and, if issued, Fund Preferred Shares, voting as a single class. A "majority of the outstanding" shares for these purposes means (i) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares outstanding are present or represented by proxy, or (ii) more than 50% of the shares outstanding, whichever of (i) or (ii) is less. The Fund may become subject to guidelines which are more limiting than the investment restrictions set forth above or in the SAI in order to

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obtain and maintain ratings from a rating agency on any Fund Preferred Shares that it may issue. It is not currently anticipated that these guidelines will materially impede the Investment Manager from managing the Fund's portfolio in accordance with the Fund's investment objectives and policies. See "Investment Objectives and Policies" and "Investment Restrictions" in the SAI for information about these guidelines and a complete list of the fundamental investment policies of the Fund. See "Description of Shares--Fund Preferred Shares--Voting Rights" for additional information with respect to the voting rights of holders of Fund Preferred Shares.

OTHER INVESTMENTS

The Fund's cash reserves, held to provide sufficient flexibility to take advantage of new opportunities for investments and for other cash needs, will be invested in money market instruments. Money market instruments in which the Fund may invest its cash reserves will generally consist of obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities, repurchase agreements collateralized by such obligations, commercial paper and shares of money market funds. Subject to certain restrictions contained in any applicable exemptive order issued by the Securities and Exchange Commission, these instruments may include investment companies such as money market funds advised or subadvised by the Investment Manager or its affiliates. To the extent the Fund purchases shares of a money market fund, the Fund will indirectly bear its proportionate share of the advisory fees and other operating expenses of such fund.

USE OF LEVERAGE

Subject to market conditions and the Fund's receipt of the highest credit rating on the Fund Preferred Shares from at least one nationally recognized statistical rating agency (e.g., AAA or Aaa), approximately one to three months after the completion of the offering of the Common Shares, the Fund intends to offer Fund Preferred Shares representing approximately 35% of the Fund's capital immediately after their issuance. The issuance of Fund Preferred Shares will leverage the Common Shares. As an alternative to issuing Fund Preferred Shares, the Fund may leverage through the issuance of commercial paper or notes or other borrowings. Any Fund Preferred Shares or borrowings will have seniority over the Common Shares.

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Under the 1940 Act, the Fund is not permitted to issue preferred shares unless, immediately after the issuance, the value of the Fund's total assets (less any liabilities not representing senior securities) is at least 200% of the liquidation value of the outstanding preferred shares plus the aggregate amount of any senior securities of the Fund representing indebtedness (I.E., such liquidation value plus the aggregate amount of any senior securities of the Fund representing indebtedness may not exceed 50% of the Fund's total assets less liabilities not representing senior securities). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares if, after giving effect to the distribution, the Fund does not satisfy the above-referenced 200% asset coverage requirement. If Fund Preferred Shares are issued, the Fund intends, to the extent possible, to purchase or redeem Fund Preferred Shares from time to time to the extent necessary in order to maintain asset coverage of any Fund Preferred Shares of at least 200%. If the Fund has Fund Preferred Shares outstanding, two of the Fund's Trustees will be elected by the holders of Fund Preferred Shares, voting separately as a class. The remaining Trustees of the Fund will be elected by holders of Common Shares and Fund Preferred Shares voting together as a single class. In the event the Fund failed to pay dividends on Fund Preferred Shares for two years,

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Fund Preferred Shareholders would be entitled to elect a majority of the Trustees of the Fund. The failure to pay dividends or make distributions could result in the Fund ceasing to qualify as a regulated investment company under the Code, which could have a material adverse effect on the value of the Common Shares. See "Description of Shares--Fund Preferred Shares."

Under the 1940 Act, the Fund generally is not permitted to borrow unless immediately after the borrowing the value of the Fund's total assets less liabilities not representing senior securities is at least 300% of the principal amount of such borrowing (I.E., such principal amount may not exceed 33 1/3% of the Fund's total assets less liabilities not representing senior securities). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares if, at the time of such declaration, the Fund does not satisfy the 300% asset coverage requirement. If the Fund borrows, the Fund intends, to the extent possible, to prepay all or a portion of the principal amount of the borrowing to the extent necessary in order to maintain the required asset coverage. Failure to maintain certain asset coverage requirements could result in an event of default and entitle the debt holders to elect a majority of the Board of Trustees.

The Fund may be subject to certain restrictions imposed by either guidelines of one or more rating agencies that may issue ratings for Fund Preferred Shares or, if the Fund borrows from a lender, by the lender. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed on the Fund by the 1940 Act. It is not anticipated that these covenants or guidelines will materially impede the Investment Manager from managing the Fund's portfolio in accordance with the Fund's investment objectives and policies. In addition to other considerations, to the extent that the Fund believes that the covenants and guidelines required by the rating agencies would materially impede its ability to meet its investment objectives, or if the Fund is unable to obtain its desired rating on the Fund Preferred Shares (expected to be AAA/Aaa), the Fund will not issue the Fund Preferred Shares.

Assuming that the Fund Preferred Shares or borrowings will represent approximately 35% of the Fund's capital and pay dividends or interest at an annual average rate of 4.00%, the income generated by the Fund's portfolio (net of estimated expenses) must exceed 1.36% in order to cover such dividend or interest payments. Of course, these numbers are merely estimates, used for illustration. Actual Fund Preferred Share dividend rates or interest rates on borrowings may vary frequently and may be significantly higher or lower than the rate estimated above.

The following table is furnished in response to requirements of the Securities and Exchange Commission. It is designed to illustrate the effect of leverage on Common Share total return, assuming investment portfolio total returns (comprised of income and changes in the value of investments held in the Fund's portfolio) of -10%, -5%, 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns expected to be experienced by the Fund. The table further reflects the issuance of Fund Preferred Shares or use of borrowings representing 35% of the Fund's total capital (after their issuance) and the Fund's currently projected annual Fund Preferred Share

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dividend rate, borrowing interest rate or payment rate set by an interest rate transaction of 4.00%. See "Use of Leverage--Leverage Risks." The table does not reflect any offering costs of Common Shares or Fund Preferred Shares or expenses attributable to any borrowings.

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Assumed Portfolio Total Return (Net of Expenses).....	(10)%	(5)%	0 %	5%	10%
Common Share Total Return.....	(17.18)%	(9.62)%	(2.05)%	5.51%	13.08%

Common Share total return is composed of two elements--the Common Share distributions paid by the Fund (the amount of which is largely determined by the net investment income of the Fund after paying dividends on Fund Preferred Shares or interest on borrowings) and gains or losses on the value of the securities the Fund owns. As required by Securities and Exchange Commission rules, the table assumes that the Fund is more likely to suffer capital losses than to enjoy capital appreciation. For example, to assume a total return of 0%, the Fund must assume that the net investment income it receives on its investments is entirely offset by losses in the value of those investments.

During the time in which the Fund is utilizing leverage, the fees paid to the Investment Manager and its affiliates for investment advisory, management and other services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's managed assets, which include the liquidation preference of any Fund Preferred Shares and the principal amount of any borrowings used for leverage. In addition, fees and expenses paid by the Fund are borne entirely by the Common Shareholders (and not by holders of Fund Preferred Shares, if any). These include costs associated with any offering of Fund Preferred Shares by the Fund (which costs are estimated to be approximately 2.1% of the total dollar amount of a Fund Preferred Share offering), which will be borne immediately by Common Shareholders (as will the costs associated with any borrowings or other forms of leverage utilized by the Fund) and result in a reduction of the net asset value of the Common Shares.

The Fund may also borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions that otherwise might require untimely dispositions of Fund securities. Such borrowings are not considered leverage for purposes of the restrictions set forth in this prospectus.

LEVERAGE RISKS

Utilization of leverage is a speculative investment technique and involves certain risks to the Common Shareholders. There is no assurance that the Fund will utilize leverage or that, if utilized, the Fund's leveraging strategy will be successful.

Leverage creates two major types of risks for Common Shareholders:

- . The likelihood of greater volatility of net asset value and market price of Common Shares because changes in the value of the Fund's portfolio (including changes in the value of any interest rate swap or cap, if applicable) are borne entirely by the Common Shareholders; and
- . The possibility either that Common Share income will fall if the dividend rate on the Fund Preferred Shares or the interest rate on any borrowings rises, or that Common Share income will fluctuate because the dividend rate on the Fund Preferred Shares or the interest rate on any borrowings varies.

The use of leverage creates an opportunity for increased Common Share net income, but also creates special risks for Common Shareholders. It is

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anticipated that the Fund Preferred Shares will generally pay dividends based on short-term rates, which will be reset frequently. Borrowings may be at a fixed or floating rate. The Fund may seek to protect itself from the risk of increasing dividends or interest expenses resulting from an increase in short-term interest rates by entering into a swap or cap transaction as to all or a portion of the Fund

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Preferred Shares or any borrowings. See "Interest Rate Transactions." As long as the rate of return, net of applicable Fund expenses, on the Fund's portfolio investments exceeds Fund Preferred Share dividend rates, as reset periodically, interest on any borrowings or the payment rate set by any interest rate swap, the investment of the proceeds of the Fund Preferred Shares or any borrowing will generate more income than will be needed to pay such dividends, interest rate or swap payment. If so, the excess may be available to pay higher dividends to Common Shareholders. If, however, the dividend or interest rate on any borrowings, as modified by any cap, or the payment rate set by any interest rate swap, approaches the net return on the Fund's portfolio investments, the benefit of leverage to Common Shareholders will be reduced, and if such dividend or interest rate exceeds the net return on the Fund's investment portfolio, the return to Common Shareholders will be less than if the Fund had not used leverage. Fund Preferred Shares are expected to pay cumulative dividends, which may tend to increase leverage risk.

To the extent that the Fund is required or elects to redeem any Fund Preferred Shares or prepay any borrowings, the Fund may need to liquidate investments to fund such redemptions or prepayments. Liquidation at times of adverse economic conditions may result in capital loss and reduce returns to Common Shareholders. In addition, such redemption or prepayment would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of the swap or cap could result in a termination payment by the Fund. See "Interest Rate Transactions."

Although it is a condition to the issuance of any Fund Preferred Shares that such Fund Preferred Shares be issued with the highest rating from at least one nationally recognized statistical rating agency, such ratings will not eliminate or mitigate the risk of investing in Common Shares. If the rating on any Fund Preferred Shares is downgraded or withdrawn, the Fund would likely be forced to redeem some or all Fund Preferred Shares, which could adversely affect Common Shareholders as described above.

Unless and until Fund Preferred Shares are issued or borrowings for leverage are made, the Common Shares will not be leveraged and the disclosure regarding these strategies will not apply.

INTEREST RATE TRANSACTIONS

In order to reduce the interest rate risk inherent in the Fund's investments and capital structure, the Fund may enter into interest rate swap or cap transactions. The Fund would use interest rate swaps or caps only with the intent to reduce or eliminate the risk that an increase in short-term interest rates could have on Common Share net earnings as a result of leverage.

Interest rate swaps involve the Fund's agreement with the swap counterparty to pay a fixed rate payment in exchange for the counterparty paying the Fund a variable rate payment that is intended to approximate all or a portion of the Fund's variable rate payment obligation on Fund Preferred Shares or any variable rate borrowing. The payment obligation would be based on the notional amount of the swap, which will not exceed the amount of the Fund's

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leverage. The Fund intends to segregate cash or liquid securities having a value at least equal to the Fund's net payment obligations under any swap transaction, marked to market daily. The Fund will treat such amounts as illiquid for purposes of its 10% limit on investments in illiquid securities.

The Fund may use an interest rate cap, which would require it to pay a premium to the cap counterparty and would entitle it, to the extent that a specified variable rate index exceeds a predetermined fixed rate, to receive payment from the counterparty of the difference based on the notional amount.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Common Shareholders will bear the risks and costs associated with the Fund's use of interest rate transactions. Depending on the state of interest rates in general, the Fund's use of interest rate instruments could enhance or harm the overall performance of the Common Shares. To the extent there is a decline in interest rates, the net amount

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receivable by the Fund, if any, under the interest rate swap or cap could decline, and this could thus result in a decline in the net asset value of the Common Shares. In addition, if short-term interest rates are lower than the Fund's fixed rate of payment on the interest rate swap, the swap will reduce Common Share net earnings. If, on the other hand, short-term interest rates are higher than the fixed rate of payment on the interest rate swap, the swap will enhance Common Share net earnings. Buying interest rate caps could enhance the performance of the Common Shares by providing a maximum leverage expense. Buying interest rate caps could also decrease the net earnings of the Common Shares in the event that the premium paid by the Fund to the counterparty exceeds the additional amount of dividends on Fund Preferred Shares or interest on borrowings that the Fund would have been required to pay had it not entered into the cap agreement. The Fund has no current intention of entering into swaps or caps other than as described in this prospectus. The Fund would not enter into interest rate swap or cap transactions in an aggregate notional amount that exceeds the outstanding amount of the Fund's leverage.

Interest rate swaps and caps do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that the Fund is contractually obligated to make. If the counterparty defaults, the Fund would not be able to use the anticipated net receipts under the swap or cap to offset the dividend payments on Fund Preferred Shares or interest payments on borrowings. Depending on whether the Fund would be entitled to receive net payments from the counterparty on the swap or cap, which in turn would depend on the general state of short-term interest rates at that point in time, such a default could negatively impact the performance of the Common Shares. The Fund will usually enter into swaps or caps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments.

The Fund will not enter into an interest rate swap or cap transaction with any counterparty that the Investment Manager believes does not have the financial resources to honor its obligation under the interest rate swap or cap transaction. Further, the Investment Manager will monitor the financial stability of a counterparty to an interest rate swap or cap transaction in an effort to protect the Fund's investments proactively. However, these measures

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will not guarantee that the counterparty to a swap or cap transaction will not default.

The Fund may not be able to enter into a suitable interest rate swap or cap transaction when the Investment Manager believes such a transaction would be appropriate, or the terms of the transaction may be less favorable than expected. In addition, at the time the interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as those of the expiring transaction. If these situations occur, they could have a negative impact on the performance of the Common Shares.

The Fund may choose or be required to redeem some or all Fund Preferred Shares or prepay any borrowings. This redemption would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Such early termination of a swap or cap could result in a termination payment by the Fund. There may also be penalties associated with early termination.

The Fund may also purchase and sell futures contracts and options on futures contracts to hedge interest rate risk. See "Investment Objectives and Policies--Portfolio Composition--Short Sales and Derivatives."

The Fund's ability to engage in interest rate transactions may be limited by tax considerations.

PRINCIPAL RISKS OF THE FUND

The Fund is a newly organized, non-diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objectives.

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NO OPERATING HISTORY

The Fund is a newly organized, non-diversified, closed-end management investment company with no operating history.

INVESTMENT RISK

An investment in the Fund is subject to investment risk, including the possible loss of the entire principal amount that you invest.

ISSUER RISK

The value of an equity or debt security may decline for a number of reasons that directly relate to the Real Estate Company that issues it, such as management performance, financial leverage and reduced demand for the Real Estate Company's properties and services.

MARKET RISK

Your investment in the Common Shares represents an indirect investment in the REIT shares and other securities of Real Estate Companies owned by the Fund, a significant portion of which are expected to trade on a national securities exchange or in the over-the-counter markets. The value of these

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securities, like other investments traded on securities markets, may move up or down, sometimes rapidly and unpredictably. Preferred shares and debt securities are generally more sensitive to changes in interest rates than common stocks. When interest rates rise, the market value of preferred shares and debt securities generally will fall. Your Common Shares at any point in time may be worth less than what you invested, even after taking into account the reinvestment of Fund dividends and distributions. The Fund may utilize leverage, which magnifies market risk. See "Use of Leverage--Leverage Risks."

INTEREST RATE RISK

Interest rate risk is the risk that fixed-income investments such as preferred shares, U.S. Government obligations and debt securities, and to a lesser extent dividend-paying common stocks such as REIT common shares, will decline in value because of changes in interest rates. When interest rates rise, the market value of such securities generally will fall. The Fund's investment in such securities means that the net asset value and market price of Common Shares will tend to decline if market interest rates rise. Also, during periods of declining interest rates, many mortgages may be refinanced, which may reduce the yield from securities of Real Estate Companies that invest primarily in loans secured by real estate and generally derive their income primarily from interest payments on mortgage loans. This risk is commonly known as "prepayment risk." The Fund intends to use leverage, which may tend to magnify interest rate risk. See "Principal Risks of the Fund--Leverage Risk." The Fund may use swaps, caps, futures contracts and options on futures contracts to help control interest rate risk. See "Investment Objectives and Policies--Portfolio Composition--Short Sales and Derivatives" and "Interest Rate Transactions."

GENERAL RISKS OF SECURITIES LINKED TO THE REAL ESTATE MARKET

The Fund will not invest in real estate directly, but will invest in real estate indirectly by purchasing securities issued by Real Estate Companies, including REITs. However, because of the Fund's policy of concentrating in the securities of companies in the real estate industry, it is also subject to the risks associated with the direct ownership of real estate. These risks include:

- . declines in the value of real estate
- . risks related to general and local economic conditions

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- . possible lack of availability of mortgage funds
- . overbuilding
- . extended vacancies of properties
- . increased competition
- . increases in property taxes and operating expenses
- . changes in zoning laws
- . losses due to costs resulting from the clean-up of environmental problems
- . liability to third parties for damages resulting from environmental problems

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- . casualty or condemnation losses
- . limitations on rents
- . changes in neighborhood values and the appeal of properties to tenants
- . changes in interest rates

Thus, the value of the Common Shares may change at different rates compared to the value of shares of a registered investment company with investments in a mix of different industries and will depend on the general condition of the economy. An economic downturn could have a material adverse effect on the real estate markets and on Real Estate Companies in which the Fund invests, which in turn could result in the Fund not achieving its investment objectives.

GENERAL REAL ESTATE RISKS. Real property investments are subject to varying degrees of risk. The yields available from investments in real estate depend on the amount of income and capital appreciation generated by the related properties. Income and real estate values may also be adversely affected by such factors as applicable laws (e.g., The Americans with Disabilities Act and tax laws), supply and demand disparities, interest rate levels, and the availability of financing. If the properties do not generate sufficient income to meet operating expenses, including, where applicable, debt service, ground lease payments, tenant improvements, third-party leasing commissions and other capital expenditures, the income and ability of the Real Estate Company to make payments of any dividends or interest and principal on its securities will be adversely affected. In addition, real property may be subject to the quality of credit extended and defaults by borrowers and tenants. The performance of the economy in each of the regions in which the real estate owned by the Real Estate Company is located affects occupancy, market rental rates and expenses and, consequently, has an impact on the income from such properties and their underlying values. The financial results of major local employers also may have an impact on the cash flow and value of certain properties. In addition, real estate investments are relatively illiquid and, therefore, the ability of Real Estate Companies to vary their portfolios promptly in response to changes in economic or other conditions is limited. A Real Estate Company may also have joint venture investments in certain of its properties, and consequently, its ability to control decisions relating to such properties may be limited.

In addition to these risks, investments in real estate and Real Estate Companies are also subject to risks that are specific to the investment sector or type of property in which the Real Estate Companies are investing. Some of these specific risks, which could have an adverse effect on the Fund's return, are discussed below.

RETAIL PROPERTIES. Retail properties are affected by the overall health of the national and relevant local economy. A retail property may be adversely affected by the growth of alternative forms of retailing, bankruptcy, decline in drawing power, departure or cessation of operations of an anchor tenant, a shift in consumer demand due to demographic changes, and/or changes in consumer preference (for example, to discount retailers) and spending patterns. A retail property may also be adversely affected if a significant tenant ceases operation at such

location, voluntarily or otherwise. Certain tenants at retail properties may be

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entitled to terminate their leases if an anchor tenant ceases operations at such property.

OFFICE PROPERTIES. Office properties are also affected by the overall health of the national and relevant local economy. Office properties generally require their owners to expend significant amounts for general capital improvements, tenant improvements and costs of reletting space. In addition, office properties that are not equipped to accommodate the needs of modern businesses may become functionally obsolete and thus non-competitive. Office properties may also be adversely affected if there is an economic decline in the businesses operated by their tenants. The risks of such an adverse effect are increased if the property revenue is dependent on a single tenant or if there is a significant concentration of tenants in a particular business or industry.

HOTEL PROPERTIES. The risks of hotel properties include, among other things, the necessity of a high level of continuing capital expenditures to keep necessary furniture, fixtures and equipment updated, competition from other hotels, increases in operating costs (which increases may not necessarily be offset in the future by increased room rates), dependence on business and commercial travelers and tourism, increases in fuel costs and other expenses of travel, changes to regulation of operating, liquor and other licenses, and adverse effects of general and local economic conditions. Due to the fact that hotel rooms are generally rented for short periods of time, hotel properties tend to be more sensitive to adverse economic conditions and competition than many other commercial properties.

Also, hotels may be operated pursuant to franchise, management and operating agreements that may be terminable by the franchiser, the manager or the operator. On the other hand, it may be difficult to terminate an ineffective operator of a hotel property.

HEALTHCARE PROPERTIES. Healthcare properties and healthcare providers are affected by several significant factors, including federal, state and local laws governing licenses, certification, adequacy of care, pharmaceutical distribution, rates, equipment, personnel and other factors regarding operations; continued availability of revenue from government reimbursement programs (primarily Medicaid and Medicare) and from private sector health insurance providers; and competition in terms of appearance, reputation, quality and cost of care with similar properties on a local and regional basis.

Governmental laws and regulations are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. Changes may also be applied retroactively and the timing of such changes cannot be predicted. The failure of any healthcare operator to comply with governmental laws and regulations may affect its ability to operate its facility or receive government reimbursement. In addition, in the event that a tenant is in default on its lease, a new operator or purchaser at a foreclosure sale will have to apply in its own right for all relevant licenses if such new operator does not already hold such licenses. There can be no assurance that such new licenses could be obtained, and consequently, there can be no assurance that any healthcare property subject to foreclosure will be disposed of in a timely manner.

MULTIFAMILY/RESIDENTIAL PROPERTIES. The value and successful operation of a multifamily/residential property may be affected by a number of factors such as the location of the property, the ability of management to provide adequate maintenance and insurance, the types of services provided by the property, the level of mortgage rates, presence of competing properties, the relocation of tenants to new properties with better amenities, adverse economic conditions in the locale, the amount of rent charged, and oversupply of units

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due to new construction. In addition, multifamily properties may be subject to rent control laws or other laws affecting such properties, which could impact the cash flows of such properties.

SELF-STORAGE PROPERTIES. The value and successful operation of a self-storage property may be affected by a number of factors, such as the ability of the management team, the location of the property, the presence of competing properties, changes in traffic patterns, and adverse effects of general and local economic conditions.

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INSURANCE ISSUES. Certain Real Estate Companies may, in connection with the issuance of securities, have disclosed that they carry comprehensive liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. However, such insurance is not uniform among Real Estate Companies. Moreover, there are certain types of extraordinary losses that may be uninsurable, or not insurable at economic rates. Certain properties may be subject to catastrophic events, such as terrorism, earthquake activity, floods or fires, for which insurance coverage cannot be economically obtained. Should a property sustain damage as a result of a catastrophic event, even if the Real Estate Company maintains appropriate insurance, the Real Estate Company may incur substantial losses due to insurance deductibles, co-payments on insured losses or uninsured losses. Should any type of uninsured loss occur (or if an insurer is unwilling or unable to pay a claim), the Real Estate Company could lose its investment in, and anticipated profits and cash flows from, a number of properties, and the Fund's investment performance may be impacted as a result.

FINANCIAL LEVERAGE RISK. Real Estate Companies may be highly leveraged and financial covenants may affect the ability of Real Estate Companies to operate effectively. Real Estate Companies are subject to risks normally associated with debt financing. If the principal payments of a Real Estate Company's debt cannot be refinanced, extended or paid with proceeds from other capital transactions, such as new equity capital, the Real Estate Company's cash flow may not be sufficient to make scheduled interest payments or to repay principal.

In addition, a Real Estate Company's obligation to comply with financial covenants, such as debt-to-asset ratios and secured debt-to-total asset ratios, and other contractual obligations may restrict a Real Estate Company's range of operating activity. A Real Estate Company, therefore, may be limited from incurring additional indebtedness, selling its assets and engaging in mergers or making acquisitions that may be beneficial to the operation of the Real Estate Company.

ENVIRONMENTAL ISSUES. In connection with the ownership (direct or indirect), operation, management and development of real properties that may contain hazardous or toxic substances, a Real Estate Company may be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines and liabilities for injuries to persons and property. The existence of any such environmental liability could have a material adverse effect on the results of operations and cash flow of any such Real Estate Company and, as a result, the net asset value of the Fund's Common Shares or the amount available to make distributions on shares of the Fund could be reduced.

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SMALLER COMPANIES. Even the larger REITs in the industry tend to be small to medium-sized companies in relation to the equity markets as a whole. There may be less trading in a smaller company's stock, which means that buy and sell transactions in that stock could have a larger impact on the stock's price than is the case with larger company stocks. Smaller companies also may have fewer lines of business, so that changes in any one line of business may have a greater impact on a smaller company's stock price than is the case for a larger company. Further, smaller company stocks may perform differently in different cycles than larger company stocks. Accordingly, REIT shares can be more volatile than--and at times will perform differently from--large company stocks such as those found in the Dow Jones Industrial Average.

TAX ISSUES. REITs are subject to a highly technical and complex set of provisions in the Code. It is possible that the Fund may invest in a Real Estate Company that purports to be a REIT but does not satisfy all of the conditions of REIT status in any year. In some cases, the Real Estate Company may still be able to qualify for REIT status after payment of a penalty tax. Otherwise, a Real Estate Company that fails to qualify for REIT status would be subject to corporate-level taxation. In either case, the return to the Fund on its investment in such company would be reduced. REITs could possibly fail to qualify for tax free pass-through of income under the Code, or to maintain their exemptions from registration under the 1940 Act. The above factors may also adversely affect the Fund's investment in such a REIT. In the event of a default by a borrower or lessee, the

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REIT may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments.

LEVERAGE RISK

The Fund intends to use leverage by issuing Fund Preferred Shares representing approximately 35% of the Fund's capital after their issuance or, alternatively, through borrowing. Leverage is a speculative technique, and there are special risks and costs associated with leveraging. For a more detailed description of the risks associated with leverage, see "Use of Leverage--Leverage Risks."

RISKS OF INVESTMENT IN LOWER-RATED SECURITIES

Lower-rated securities, also known as "junk bonds," may be considered speculative with respect to the issuer's continuing ability to make principal and interest payments. Analysis of the creditworthiness of issuers of lower-rated securities may be more complex than for issuers of higher quality debt securities, and the Fund's ability to achieve its investment objectives may, to the extent the Fund invests in lower-rated securities, be more dependent upon the Investment Manager's credit analysis than would be the case if the Fund were investing in higher quality securities. The Fund may only invest in non-investment grade securities that are rated "CCC" or higher by S&P or "Caa" or higher by Moody's (or a comparable rating by another nationally recognized statistical agency), or unrated securities judged to be of comparable quality by the Investment Manager. The issuers of these securities may be in default or have a currently identifiable vulnerability to default on their payments of principal and interest, or may otherwise be subject to present elements of danger with respect to payments of principal or interest. However, the Fund will not invest in securities that are in default as to payment of principal and interest at the time of purchase.

Lower-rated securities may be more susceptible to real or perceived

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adverse economic and competitive industry conditions than higher grade securities. The prices of lower-rated securities have been found to generally be less sensitive to interest-rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual corporate developments. Yields on lower-rated securities will fluctuate. If the issuer of lower-rated securities defaults, the Fund may incur additional expenses to seek recovery.

The secondary markets in which lower-rated securities are traded may be less liquid than the market for higher grade securities. A lack of liquidity in the secondary trading markets could adversely affect the price at which the Fund could sell a particular lower-rated security when necessary to meet liquidity needs or in response to a specific economic event, such as a deterioration in the creditworthiness of the issuer, and could adversely affect and cause large fluctuations in the net asset value of the Fund's shares. Adverse publicity and investor perceptions may decrease the values and liquidity of high yield securities.

It is reasonable to expect that any adverse economic conditions could disrupt the market for lower-rated securities, have an adverse impact on the value of such securities, and adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon. New laws and proposed new laws may adversely impact the market for lower-rated securities.

While securities carrying the fourth highest quality rating ("Baa" by Moody's or "BBB" by S&P or an equivalent rating from another nationally recognized statistical rating agency or, if unrated, judged to be of comparable quality by the Investment Manager) are considered investment grade and are viewed to have adequate capacity for payment of principal and interest, investments in such securities involve a higher degree of risk than that associated with investments in securities in the higher rating categories. Such securities lack outstanding investment characteristics and, in fact, have speculative characteristics as well. For example, changes in economic conditions or other circumstances are more likely to lead to a weakened capacity to make principal and interest payments than is the case with higher rated securities.

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INTEREST RATE TRANSACTIONS RISK

The Fund may enter into a swap or cap transaction to attempt to protect itself from increasing dividend or interest expenses resulting from increasing short-term interest rates. A decline in interest rates may result in a decline in the value of the swap or cap, which may result in a decline in the net asset value of the Fund. A sudden and dramatic decline in interest rates may result in a significant decline in the net asset value of the Fund. See "Interest Rate Transactions."

RISKS OF FUTURES AND OPTIONS ON FUTURES

The use by the Fund of futures contracts and options on futures contracts to hedge interest rate risks involves special considerations and risks. Successful use of hedging transactions depends upon the Investment Manager's ability to predict correctly the direction of changes in interest rates. There can be no assurance that any particular hedging strategy will succeed or that appropriate hedging transactions will be available on the terms desired. There might be imperfect correlation, or even no correlation, between the price movements of a futures or option contract and the movements of the interest

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rates being hedged. Such a lack of correlation might occur due to factors unrelated to the interest rates being hedged, such as market liquidity and speculative or other pressures on the markets in which the hedging instrument is traded. Hedging strategies, if successful, can reduce risk of loss by wholly or partially offsetting the negative effect of unfavorable movements in the interest rates being hedged. However, hedging strategies can also reduce opportunity for gain by offsetting the positive effect of favorable movements in the hedged interest rates. The Fund could lose money if the counterparty to a futures contract or option on a futures contract is unwilling or unable to honor its obligations to the Fund. There is no assurance that a liquid secondary market will exist for any particular futures contract or option thereon at any particular time. If the Fund were unable to liquidate a futures contract or an option on a futures contract position due to the absence of a liquid secondary market or the imposition of price limits, it could incur substantial losses. The Fund would continue to be subject to market risk and counterparty risk with respect to the position. There is no assurance that the Fund will use hedging transactions. For example, if the Fund determines that the cost of hedging will exceed the potential benefit to the Fund, the Fund will not enter into such transactions.

FOREIGN SECURITY RISK

The prices of foreign securities may be affected by factors not present in U.S. markets. The dollar value of the Fund's foreign investments will be affected by changes in the exchange rates between the dollar and the currencies in which those investments are traded. The value of the Fund's foreign investments may also be adversely affected by political and social instability in their home countries and by changes in economic or taxation policies in those countries. Foreign securities are also subject to the risks of nationalization, expropriation or confiscatory taxation, currency blockage, and adverse political changes or diplomatic developments.

Foreign companies generally are subject to less stringent regulations, including financial and accounting controls, than are U.S. companies. As a result, there generally is less publicly available information about foreign companies than about U.S. companies. In addition, the securities markets of other countries are smaller than U.S. securities markets. As a result, many foreign securities may be less liquid and more volatile than U.S. securities.

LIQUIDITY RISK

The Fund may invest in securities that are illiquid so long as no more than 10% of the total assets of the Fund (taken at market value at the time of investment) would be invested in such securities. The term "illiquid securities" for these purposes means securities that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the Fund has valued the securities. Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wide fluctuations in market value. Also, the Fund may not be able to dispose of illiquid securities when that would be beneficial at a favorable time or price.

RISKS OF WARRANTS AND RIGHTS

Warrants and rights are subject to the same market risks as stocks, but may be more volatile in price. Warrants and rights do not carry the right to dividends or voting rights with respect to their underlying securities, and they do not represent any rights in the assets of the issuer. An investment in

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warrants or rights may be considered speculative. In addition, the value of a warrant or right does not necessarily change with the value of the underlying security, and a warrant or right ceases to have value if it is not exercised prior to its expiration date. The purchase of warrants or rights involves the risk that the Fund could lose the purchase value of a warrant or right if the right to subscribe to additional shares is not exercised prior to the warrant's or right's expiration. Also, the purchase of warrants and rights involves the risk that the effective price paid for the warrant or right, added to the subscription price of the related security, may exceed the subscribed security's market price. This may occur, for example, when there is no movement in the price of the underlying security or when the market price of the underlying security decreases.

INFLATION RISK

Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the present value of future payments. As inflation increases, the real value of the Common Shares and distributions can decline and the dividend payments on the Fund Preferred Shares, if any, or interest payments on any borrowings may increase, which would tend further to reduce returns to Common Shareholders.

MARKET PRICE DISCOUNT FROM NET ASSET VALUE

Shares of closed-end investment companies frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that the Fund's net asset value could decrease as a result of the Fund's investment activities and may be greater for investors expecting to sell their shares a relatively short time following completion of this offering. The net asset value of the Common Shares will be reduced immediately following the offering by the payment of the sales load and certain offering costs. Whether investors will realize gains or losses upon the sale of the Common Shares will depend not upon the Fund's net asset value, but entirely upon whether the market price of the Common Shares at the time of sale is above or below the investor's purchase price for the Common Shares. Because the market price of the Common Shares will be determined by factors such as relative supply of and demand for Common Shares in the market, general market and economic conditions, and other factors beyond the control of the Fund, the Fund cannot predict whether the Common Shares will trade at below or above net asset value, or at below or above the initial public offering price. The Common Shares are designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes.

ADDITIONAL RISK CONSIDERATIONS

PORTFOLIO TURNOVER

The Fund may engage in frequent and active portfolio trading when the Investment Manager considers it to be appropriate, but the Fund will not use short-term trading as the primary means of achieving its investment objectives. Although the Fund cannot accurately predict its annual portfolio turnover rate, it is not expected to exceed 100% under normal circumstances. However, there are no limits on the rate of portfolio turnover, and investments may be sold without regard to the length of time held when, in the opinion of the Investment Manager, investment considerations warrant such action. A higher turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. High portfolio turnover may result in the realization of net short-term capital gains by the Fund that, when distributed to shareholders, will be taxable as ordinary income. See "Tax Matters."

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NON-DIVERSIFIED STATUS

Because the Fund, as a "non-diversified" investment company under the 1940 Act, can invest a greater portion of its assets in obligations of a single issuer than, and invest in a smaller number of individual issuers than, a "diversified" fund, an investment in the Fund presents greater risk to you than an investment in a diversified company. The Fund will be more susceptible than a diversified fund to being adversely affected by any single corporate, economic, political or regulatory occurrence. See "Investment Objectives and Policies." To help control this risk, the Fund will not invest more than 15% of its total assets (taken at market value at the time of investment) in the securities of any one issuer other than the U.S. Government. In addition, the Fund intends to diversify its investments to the extent necessary to maintain its status as a regulated investment company under the Code. See "Taxation" in the SAI.

ANTI-TAKEOVER PROVISIONS

The Declaration includes provisions that may have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status. These provisions may also have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices. See "Certain Provisions in the Declaration of Trust."

RECENT DEVELOPMENTS

As a result of the terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001, some of the U.S. securities markets were closed for a four-day period. These terrorist attacks and related events have led to increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. A similar disruption of the financial markets could impact interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Common Shares and the Fund Preferred Shares.

CERTAIN AFFILIATIONS

Certain broker-dealers may be considered to be affiliated persons of the Fund and/or the Investment Manager due to their possible affiliations with CDC IXIS Asset Management North America, L.P. Absent an exemption from the Securities and Exchange Commission or other regulatory relief, the Fund is generally precluded from effecting certain principal transactions with affiliated brokers, and its ability to purchase securities being underwritten by an affiliated broker or a syndicate including an affiliated broker or to utilize affiliated brokers for agency transactions is subject to regulatory and other restrictions. This could limit the Fund's ability to engage in securities transactions and take advantage of market opportunities.

MANAGEMENT OF THE FUND

The business and affairs of the Fund are managed under the direction of the Board of Trustees. Subject always to the investment objectives and policies of the Fund and to the general supervision of the Trustees, the Investment Manager is responsible for management of the Fund's investment portfolio. The management of the Fund's day-to-day operations (other than investment operations) is delegated to its officers and the Fund's administrator and sub-administrator, subject always to the general supervision of the Trustees. The names and business addresses of the Trustees and officers of the Fund and

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their principal occupations and other affiliations during the past five years are set forth under "Management of the Fund" in the SAI.

INVESTMENT MANAGER

The Investment Manager has been retained to provide investment advice, and, in general, to conduct the investment program of the Fund under the overall supervision and control of the Trustees of the Fund. The

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Investment Manager, which is registered as an investment adviser with the Securities and Exchange Commission, is a real estate investment advisory firm that provides investment management and related services to institutional and retail investors. Together with its affiliates operating under the AEW name, the Investment Manager managed approximately \$6.9 billion of client capital as of September 30, 2002. The Investment Manager is a subsidiary of (and therefore may be deemed to be controlled by) CDC IXIS Asset Management North America, L.P., which, together with its subsidiaries and affiliates in the U.S., Europe and Asia, managed approximately \$291 billion in assets for institutions and individuals as of September 30, 2002. The Investment Manager's address is Two Seaport Lane, World Trade Center East, Boston, Massachusetts 02210.

A team of professionals at the Investment Manager, working under the Fund's portfolio manager, is primarily responsible for overseeing the day-to-day operations of the Fund. That team is led by Matthew A. Troxell, who serves as Portfolio Manager for the Fund. Mr. Troxell joined the Investment Manager in 1994 as a Vice President and became a Principal of the firm in 1997. He has 19 years of securities and portfolio management experience. Prior to joining the Investment Manager, he was a Vice President and Assistant to the President of Landmark Land Company and a Securities Analyst at A.G. Becker Paribas. Mr. Troxell is a graduate of Tufts University (B.A.) and holds the designation of Chartered Financial Analyst (CFA).

INVESTMENT MANAGEMENT AGREEMENT

Under its Investment Management Agreement with the Fund, the Investment Manager furnishes a continuous investment program for the Fund's portfolio, makes the day-to-day investment decisions for the Fund, and generally manages the Fund's investments in accordance with the stated policies of the Fund, subject to the general supervision of the Board of Trustees of the Fund. The Investment Manager also performs certain administrative services for the Fund and provides persons satisfactory to the Trustees of the Fund to serve as officers of the Fund. Such officers, as well as certain other employees and Trustees of the Fund, may be directors, officers, or employees of the Investment Manager or its affiliates, including CDC IXIS Services.

For its services under the Investment Management Agreement, the Fund pays the Investment Manager a monthly management fee computed at the annual rate of .80% of the average daily managed assets of the Fund. "Managed assets" means the net asset value of the Common Shares plus the liquidation preference of any Fund Preferred Shares and the principal amount of any borrowings used for leverage. In addition to the monthly management fee, the Fund pays all other costs and expenses of its operations, including compensation of its independent Trustees, custodian, administrator, transfer agency and dividend disbursing expenses, legal fees, expenses of independent auditors, expenses associated with interest rate transactions (including, to the extent approved by the Board of Trustees from time to time, the fees of third parties that may assist in the structuring and negotiation of interest rate transactions), expenses of repurchasing shares, expenses of issuing any Fund Preferred Shares, listing

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expenses, trading, brokerage and other investment expenses, interest expense, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any. The organizational expenses and offering costs of the Fund that are not paid by the Investment Manager will be netted against paid-in capital in the Fund's initial fiscal year. The Investment Manager has contractually agreed to waive a portion of its investment management fees in the amount of 0.25% of average daily managed assets (which include the liquidation preference of any Fund Preferred Shares and the principal amount of any borrowings used for leverage) for the first five years of the Fund's operations, 0.20% of average daily managed assets in year six, 0.15% of average daily managed assets in year seven, 0.10% of daily managed assets in year eight and 0.05% of average daily managed assets in year nine. The Investment Manager has not agreed to waive any portion of its fees beyond year nine of the Fund's operations. See "Summary of Fund Expenses." When the Fund is utilizing leverage, the fees paid to the Investment Manager and its affiliates for investment advisory, management and other services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's managed assets, which include the liquidation preference of any Fund Preferred Shares and the principal amount of any borrowings used for leverage. As a result, the Investment Manager has a financial incentive for the Fund to issue Fund Preferred Shares or to otherwise incur leverage, which may create a conflict of interest. See "Use of Leverage."

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ADMINISTRATIVE SERVICES AND SUB-ADMINISTRATION AGREEMENTS

Under its Administrative Services Agreement with the Fund, CDC IXIS Services provides certain administrative and accounting functions for the Fund, including providing or procuring administrative services necessary for the operations of the Fund, furnishing office space and facilities required for conducting the business of the Fund and providing persons satisfactory to the Trustees of the Fund to serve as officers of the Fund.

As permitted by the Administrative Services Agreement and with the approval of the Board of Trustees of the Fund, CDC IXIS Services has entered into the Sub-Administration Agreement with Investors Bank & Trust Company, as sub-administrator. Under the Sub-Administration Agreement, Investors Bank & Trust Company has assumed responsibility for certain fund administration services, subject to the supervision of CDC IXIS Services.

Under the Administrative Services Agreement, the Fund pays CDC IXIS Services a monthly administration fee computed on the basis of the average daily managed assets of the Fund at an annual rate equal to 0.06% of the first \$300 million in assets and 0.0575% of assets in excess of \$300 million, with a minimum annual fee of \$150,000. Under the Sub-Administration Agreement, CDC IXIS Services (and not the Fund) pays Investors Bank & Trust Company a monthly fee computed on the basis of the managed assets of the Fund at an annual rate equal to 0.015% of the first \$300 million in assets and 0.012% thereafter. Investors Bank & Trust Company serves as the Fund's custodian and EquiServe has been retained to serve as the Fund's transfer agent, dividend disbursing agent and registrar. See "Custodian, Transfer Agent, Dividend Disbursing Agent and Registrar."

MARKETING AGENT

CDC IXIS Asset Management Advisors Group (the "Advisors Group"), an affiliate of the Investment Manager, will act as marketing agent for the Fund in connection with the offering of the Common Shares by preparing marketing materials and providing distribution support during the offering. The Advisors

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Group has agreed, pursuant to an agreement with the Investment Manager, (i) to reimburse the Investment Manager for one-half of the amount by which the aggregate of all of the Fund's organizational expenses and offering costs (other than the sales load) exceeds \$0.03 per Common Share and (ii) to bear a portion of any ongoing asset-based fees to be paid by the Investment Manager to the underwriters (other than Merrill Lynch) in connection with the offering in the amount of 21.8% of such fees in years one and two of the Fund's operations and in declining amounts for each of the four years thereafter. As payment for these services, the Investment Manager (and not the Fund) has agreed to pay the Advisors Group a fee at the annual rate of 0.12% of net assets for years one and two of the Fund's operations, 0.08% of net assets for years three and four, and 0.05% of net assets in years five and six. The Investment Manager has not agreed to pay any fees to the Advisors Group (and the Advisors Group has not agreed to bear any portion of any asset-based fees payable by the Investment Manager) beyond year six of the Fund's operations. The Advisors Group and the Investment Manager, both of which are subsidiaries of CDC IXIS Asset Management North America, L.P., may agree to change or eliminate these payments at any time.

NET ASSET VALUE

The Fund determines the net asset value of its Common Shares on each day the New York Stock Exchange is open for business at the close of regular trading (normally 4:00 p.m. Eastern time). Domestic debt securities and non-U.S. securities are normally priced using data reflecting the earlier closing of the principal markets for those securities. Information that becomes known to the Fund or its agent after the Fund's net asset value has been calculated on a particular day will not be used to adjust retroactively the price of a security or the Fund's net asset value determined earlier that day.

The Fund determines net asset value per Common Share by dividing the value of the Fund's securities, cash and other assets (including interest accrued but not collected) less all its liabilities (including accrued

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expenses, the liquidation preference of the Fund Preferred Shares and dividends payable) by the total number of Common Shares outstanding. The Fund values portfolio securities for which market quotations are readily available at market value. The Fund's short-term investments are valued at amortized cost when the security has 60 days or less to maturity.

In unusual circumstances, instead of valuing securities in the usual manner, the Fund may value securities at fair value as determined in good faith by the Board of Trustees or persons acting pursuant to procedures approved by the Board, generally based on recommendations provided by the Investment Manager or CDC IXIS Services. Fair valuation may also be required due to material events that occur after the close of the relevant market but prior to the close of the New York Stock Exchange. The effect of using fair value pricing is that the Common Shares' net asset value will be subject to the judgment of the Board of Trustees or its designee instead of being determined by the market.

Any swap transaction that the Fund enters into may, depending on the applicable interest rate environment, have a positive or negative value for purposes of calculating net asset value. Any cap transaction that the Fund enters into may, depending on the applicable interest rate environment, have no value or a positive value. In addition, accrued payments to the Fund under such transactions will be assets of the Fund and accrued payments by the Fund will be liabilities of the Fund.

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DIVIDENDS AND DISTRIBUTIONS

LEVEL RATE DIVIDEND POLICY

Subject to the determination of the Board of Trustees to implement a Managed Dividend Policy, as discussed below, commencing with the Fund's first dividend, the Fund intends to make regular monthly cash distributions to Common Shareholders at a level rate based on the projected performance of the Fund, which rate may be adjusted from time to time ("Level Rate Dividend Policy"). Distributions can only be made from net investment income after paying accrued dividends on Fund Preferred Shares, if any, and interest and required principal payments on borrowings, if any, as well as making any required payments on any interest rate transactions. The Fund's ability to maintain a Level Rate Dividend Policy will depend on a number of factors, including the stability of income received from its investments and dividends payable on Fund Preferred Shares and interest and required principal payments on borrowings, if any. Over time, the Fund intends to distribute all of its net investment income (after payment of expenses, dividends on any Fund Preferred Shares and interest on any borrowings). At least annually, the Fund intends to distribute all of its net capital gain and ordinary taxable income after paying expenses and paying any accrued dividends on, or redeeming or liquidating, any Fund Preferred Shares, if any, or making interest and required principal payments on borrowings, if any. Initial distributions to Common Shareholders are expected to be declared approximately 45 days, and paid approximately 60 to 90 days, from the completion of this offering, depending upon market conditions. The net income of the Fund consists of all interest income accrued on portfolio assets less all expenses of the Fund. Expenses of the Fund are accrued each day. In addition, the Fund currently expects that a portion of its distributions will consist of amounts in excess of investment company taxable income and net capital gain derived from the non-taxable components of the cash flow from the real estate underlying the Fund's portfolio investments. It is possible that amounts distributed to the Fund from Real Estate Companies would be recharacterized as a return of capital, in which case amounts distributed to Fund shareholders may also be recharacterized as a return of capital. To permit the Fund to maintain a more stable monthly distribution, the Fund will initially distribute less than the entire amount of net investment income earned in a particular period. The undistributed net investment income would be available to supplement future distributions. As a result, the distributions paid by the Fund for any particular monthly period may be more or less than the amount of net investment income actually earned by the Fund during the period. Undistributed net investment income will be added to the Fund's net asset value and, correspondingly, distributions from undistributed net investment income will be deducted from the Fund's net asset value. See "Tax Matters."

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MANAGED DIVIDEND POLICY

Following the completion of this offering, the Fund intends to file an exemptive application with the Securities and Exchange Commission seeking an order under the 1940 Act facilitating the implementation of a Managed Dividend Policy. If and when the Fund receives the requested relief, the Fund may, subject to the determination of its Board of Trustees, implement a Managed Dividend Policy. Under a Managed Dividend Policy, the Fund would intend to distribute a monthly fixed percentage of net asset value to Common Shareholders. As with the Level Dividend Rate Policy, distributions would be made only after paying expenses and paying dividends on Fund Preferred Shares, if any, and interest and required principal payments on borrowings, if any. Under a Managed Dividend Policy, if, for any monthly distribution, net

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investment income and net realized capital gain were less than the amount of the distribution, the difference would be distributed from the Fund's assets. It is possible that amounts distributed to the Fund from Real Estate Companies would be recharacterized as a return of capital, in which case amounts distributed to Fund shareholders may also be recharacterized as a return of capital. The Fund's final distribution for each calendar year would include any remaining net investment income and net realized capital gain undistributed during the year. Pursuant to the requirements of the 1940 Act and other applicable laws, a notice would accompany each monthly distribution with respect to the estimated source of the distribution made. In the event the Fund distributed in any calendar year amounts in excess of net investment income and net realized capital gain (such excess, the "Excess"), such distribution would decrease the Fund's total assets and, therefore, have the likely effect of increasing the Fund's expense ratio. There is a risk that the Fund would not eventually realize capital gains in an amount corresponding to a distribution of the Excess. In addition, in order to make such distributions, the Fund may have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action. There is no guarantee that the Fund will receive an exemptive order facilitating the implementation of a Managed Dividend Policy or, if received, that the Fund will determine to implement a Managed Dividend Policy. The Board of Trustees reserves the right to change the dividend policy from time to time.

DIVIDEND REINVESTMENT PLAN

The Fund has a Dividend Reinvestment Plan (the "Plan") commonly referred to as an "opt-out" plan. Each Common Shareholder will have all distributions of dividends and capital gains automatically reinvested in additional Common Shares by EquiServe, as agent for shareholders pursuant to the Plan (the "Plan Agent"), unless they elect to receive cash. The Plan Agent will either (i) effect purchases of Common Shares under the Plan in the open market or (ii) distribute newly issued Common Shares of the Fund. Shareholders who elect not to participate in the Plan will receive all distributions in cash paid by check mailed directly to the shareholder of record (or if the shares are held in street or other nominee name, then to the nominee) by the Plan Agent, as dividend disbursing agent. Shareholders whose Common Shares are held in the name of a broker or nominee should contact the broker or nominee to determine whether and how they may participate in the Plan.

The Plan Agent serves as agent for the shareholders in administering the Plan. After the Fund declares a dividend or makes a capital gain distribution, the Plan Agent will, as agent for the participants, either (i) receive the cash payment and use it to buy Common Shares in the open market, on the American Stock Exchange or elsewhere, for the participants' accounts or (ii) distribute newly issued Common Shares of the Fund on behalf of the participants. The Plan Agent will receive cash from the Fund with which to buy Common Shares in the open market if, on the determination date, the net asset value per share exceeds the market price per share plus estimated brokerage commissions on that date. The Plan Agent will receive the dividend or distribution in newly issued Common Shares of the Fund if, on the determination date, the market price per share plus estimated brokerage commissions equals or exceeds the net asset value per share of the Fund on that date. The number of shares to be issued will be computed at a per share rate equal to the greater of (i) the net asset value or (ii) 95% of the closing market price per share on the payment date.

Participants in the Plan may withdraw from the Plan upon written notice to the Plan Agent. Such withdrawal will be effective immediately if received not less than ten days prior to a distribution record date; otherwise, it will be effective for all subsequent dividend record dates. When a participant withdraws from the

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Plan or upon termination of the Plan as provided below, certificates for whole Common Shares credited to his or her account under the Plan will be issued and a cash payment will be made for any fraction of a Common Share credited to such account. In the alternative, upon receipt of the participant's instructions, Common Shares will be sold and the proceeds sent to the participant less brokerage commissions and any applicable taxes.

The Plan Agent maintains each shareholder's account in the Plan and furnishes confirmations of all acquisitions made for the participant. Common Shares in the account of each Plan participant will be held by the Plan Agent on behalf of the participant. Proxy material relating to shareholders' meetings of the Fund will include those shares purchased as well as shares held pursuant to the Plan.

In the case of shareholders, such as banks, brokers or nominees, which hold Common Shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholders as representing the total amount registered in the record shareholder's name and held for the account of beneficial owners who are participants in the Plan.

The Plan Agent's fees for the handling of reinvestment of dividends and other distributions will be paid by the Fund. Each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of distributions. There are no other charges to participants for reinvesting dividends or capital gain distributions; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

The automatic reinvestment of dividends and other distributions will not relieve participants of any income tax that may be payable or required to be withheld on such dividends or distributions. See "Tax Matters."

The Fund and the Plan Agent reserve the right to amend or terminate the Plan. All correspondence concerning the Plan should be directed to the Plan Agent by telephone at (800) 730-6001.

CLOSED-END STRUCTURE

The Fund is a closed-end management investment company (commonly referred to as a closed-end fund). Closed-end funds differ from open-end investment companies (which are generally referred to as mutual funds) in that closed-end funds generally list their shares for trading on a stock exchange and do not redeem their shares at the request of the shareholder. This means that, if you wish to sell your shares of a closed-end fund, you must trade them on the market like any other stock at the prevailing market price at that time. Shareholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by or permitted under the 1940 Act) at their net asset value, less any redemption charge that might be in effect at the time of redemption. In order to avoid maintaining large cash positions or liquidating favorable investments to meet redemptions, open-end investment companies typically engage in a continuous offering of their shares. Open-end investment companies are thus subject to periodic asset in-flows and out-flows that can complicate portfolio management. By comparison, closed-end funds are generally better able to stay fully invested in securities that are consistent with their investment objectives, and also have greater flexibility to make certain types of investments and use certain investment strategies such as financial leverage and investments in illiquid securities.

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Shares of closed-end funds frequently trade at a discount to their net asset value. Because of this possibility and the recognition that any such discount may not be in the best interest of shareholders, the Fund's Board of Trustees might consider from time to time repurchases of Fund shares in the open market or in private transactions, tender offers for shares at net asset value or other programs intended to reduce the discount. The Fund cannot guarantee or assure, however, that the Fund's Board will engage in any of these actions. Nor is there any guarantee or assurance that such actions, if undertaken, would result in shares trading at a price equal or close to net asset value per share. See "Repurchase of Shares." The Board of Trustees might also consider

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converting the Fund to an open-end investment company, which would also require a vote of the shareholders of the Fund. See "Certain Provisions in the Declaration of Trust."

POSSIBLE CONVERSION TO OPEN-END STATUS

Subject to the voting and other provisions in the Declaration, the Fund may be converted to an open-end investment company at any time by a vote of the outstanding shares. See "Certain Provisions in the Declaration of Trust" for a discussion of the shareholder and Trustee approval requirements applicable to conversion of the Fund to an open-end investment company. If the Fund converted to an open-end investment company, it would be required to redeem all Fund Preferred Shares then outstanding (requiring in turn that it liquidate a portion of its investment portfolio) and the Fund's Common Shares would likely no longer be listed on the American Stock Exchange. Conversion to open-end status could also require the Fund to modify certain investment restrictions and policies. The Board of Trustees may at any time propose conversion of the Fund to open-end status, depending upon its judgment regarding the advisability of such action in light of circumstances then prevailing. However, the Fund cannot assure you that the Board of Trustees will decide to take or propose such a conversion.

REPURCHASE OF SHARES

Shares of closed-end investment companies often trade at a discount to net asset value, and the Fund's shares may also trade at a discount to their net asset value, although it is possible that they may trade at a premium above net asset value. The market price of the Fund's shares will be determined by such factors as dividend levels (which are in turn affected by the return on the Fund's portfolio and expenses), relative demand for and supply of shares in the market, the Fund's net asset value, call protection, dividend stability, general market and economic conditions and other factors beyond the control of the Fund. Although Common Shareholders will not have the right to redeem their shares, the Fund may take action to repurchase shares in the open market or in private transactions or make tender offers for its shares at net asset value. The Fund cannot assure you that the Board of Trustees will decide to take or propose any of these actions, or that share repurchases or tender offers, if undertaken, will reduce market discount. For more information, see "Repurchase of Shares; Conversion to Open-End Fund" in the SAI. Repurchase of the Common Shares may have the effect of reducing any market discount to net asset value.

There is no assurance that, if action is undertaken to repurchase or tender for Common Shares, such action will result in the Common Shares trading at a price which approximates their net asset value. Although share repurchases and tenders could have a favorable effect on the market price of the Common

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Shares, you should be aware that the acquisition of Common Shares by the Fund will decrease the total assets of the Fund and, therefore, will have the effect of increasing the Fund's expense ratio and may adversely affect the ability of the Fund to achieve its investment objectives. To the extent the Fund may need to liquidate investments to fund repurchases of shares, this may result in portfolio turnover, which will result in additional expenses being borne by the Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestment in other securities. Portfolio turnover could give rise to a greater amount of taxable capital gains. The Board of Trustees would typically consider the following factors to be relevant to a potential decision to repurchase shares: the extent and duration of the discount, the liquidity of the Fund's portfolio, the impact (including the expense) of any action on the Fund or its shareholders and market considerations. Any share repurchases or tender offers will be made in accordance with the requirements of the Securities Exchange Act of 1934, as amended, and the 1940 Act.

TAX MATTERS

The following brief tax discussion assumes you are a U.S. shareholder and that you hold your shares as a capital asset. For more detailed information regarding the tax consequences of investing in the Fund, please see the SAI. The Fund intends to qualify each year for treatment as a regulated investment company under the

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provisions of Subchapter M of the Code. If the Fund so qualifies and distributes each year to its shareholders at least 90% of the sum of its "investment company taxable income" (generally, its taxable net income and the excess, if any, of its net short-term capital gain over net long-term capital losses) and its net tax-exempt income for such year, the Fund will not be required to pay federal income taxes on any income it distributes to shareholders in the form of dividends (including capital gain dividends) to shareholders. Such distributions, however, will generally be taxable to you as a shareholder of the Fund when received.

For federal income tax purposes, distributions paid to you out of the Fund's "investment company taxable income" will be taxable to you as ordinary income to the extent of the Fund's earnings and profits. Taxes on distributions of capital gains are determined by how long the Fund owned the investments that generated them, rather than by how long you have held your Fund shares. Distributions are taxable to you even if they are paid from income or gains earned by the Fund before your investment (and thus were included in the price you paid). Distributions of gains from investments that the Fund owned for more than one year that are designated by the Fund as capital gain dividends will be taxable as capital gains. Distributions of gains from investments that the Fund owned for one year or less will be taxable as ordinary income. The Fund intends to distribute to its shareholders, at least annually, substantially all of its investment company taxable income and net capital gain. A distribution of an amount in excess of the Fund's current and accumulated earnings and profits is treated as a non-taxable return of capital that reduces your tax basis in your Common Shares; any such distributions in excess of your basis are treated as gain from a sale of your shares. The tax treatment of your dividends and distributions will be the same regardless of whether they were paid to you in cash or reinvested in additional Common Shares. Shareholders not subject to tax on their income will generally not be required to pay tax on amounts distributed to them.

A dividend paid to you in January of a year generally is deemed to have

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been paid by the Fund on December 31 of the preceding calendar year if it is declared by the Fund in October, November or December with a record date in such a month. Each year, the Fund will notify you of the tax status of dividends and other distributions.

If you sell your Common Shares, or have shares repurchased by the Fund, you may realize a capital gain or loss in an amount equal to the difference between the amount realized and your adjusted tax basis in the shares sold, which gain or loss will be long-term or short-term depending generally on your holding period for the shares.

The Fund may be required to withhold U.S. federal income tax from all taxable distributions payable if you:

- . fail to provide the Fund with your correct taxpayer identification number (TIN);
- . fail to certify to the Fund that you are a United States person and are not subject to such withholding; or
- . have been notified by the Internal Revenue Service that you are subject to backup withholding.

It is not expected that investors will be subject to the alternative minimum tax as a result of an investment in the Fund. Fund distributions may be subject to state and local taxes. You should consult with your own tax adviser regarding the particular consequences of investing in the Fund.

DESCRIPTION OF SHARES

COMMON SHARES

The Declaration authorizes the issuance of an unlimited number of Common Shares, \$.00001 par value per share. The Common Shares have no preemptive, conversion, exchange or redemption rights. Each share has equal voting, dividend, distribution and liquidation rights. The Common Shares will, when issued, be fully paid

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and, subject to the matters discussed in "Certain Provisions in the Declaration of Trust," nonassessable. Common Shareholders are entitled to one vote per share, and fractional shares will be entitled to a proportionate fractional vote. Whenever Fund Preferred Shares or borrowings are outstanding, Common Shareholders will not be entitled to receive any distributions from the Fund unless all accrued dividends on the Fund Preferred Shares and interest and principal payments on borrowings have been paid, and unless the applicable asset coverage requirements under the 1940 Act would be satisfied after giving effect to the distribution. See "--Fund Preferred Shares" below. The Common Shares have been approved for listing on the American Stock Exchange under the symbol "RIF." Under the rules of the American Stock Exchange currently applicable to listed companies, the Fund will be required to hold a meeting of shareholders annually. The foregoing description and the descriptions below under "Fund Preferred Shares" and "Certain Provisions in the Declaration of Trust" and above under "Possible Conversion to Open-End Status" are subject to the provisions contained in the Fund's Declaration and Bylaws.

FUND PREFERRED SHARES

The Declaration authorizes the issuance of an unlimited number of

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Preferred Shares. The Preferred Shares may be issued in one or more classes or series, with such par value and rights as determined by the Board of Trustees, by action of the Board of Trustees without the approval of the Common Shareholders.

The Fund's Board of Trustees has indicated its intention to authorize an offering of Fund Preferred Shares (representing approximately 35% of the Fund's capital immediately after the time the Fund Preferred Shares are issued) approximately one to three months after completion of the offering of Common Shares. Any such decision is subject to market conditions, to the Fund's receipt of the highest credit rating on the Fund Preferred Shares from at least one nationally recognized statistical rating agency (e.g., AAA or Aaa) and to the Board's continuing belief that leveraging the Fund's capital structure through the issuance of Fund Preferred Shares is likely to achieve the benefits to the Common Shareholders described in this prospectus. The Board of Trustees has indicated that the preference on distribution, liquidation preference, and redemption provisions of the Fund Preferred Shares will likely be as stated below.

LIMITED ISSUANCE OF FUND PREFERRED SHARES. Under the 1940 Act, the Fund could issue Fund Preferred Shares with an aggregate liquidation value of up to one-half of the value of the Fund's total assets less liabilities not representing senior securities, measured immediately after issuance of the Fund Preferred Shares. "Liquidation value" means the original purchase price of the shares being liquidated plus any accrued and unpaid dividends. In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless the liquidation value of the Fund Preferred Shares is less than one-half of the value of the Fund's total assets less liabilities not representing senior securities (determined after deducting the amount of such dividend or distribution) immediately after the distribution. If the Fund sells all the Common Shares and Fund Preferred Shares discussed in this prospectus, the liquidation value of the Fund Preferred Shares is expected to be approximately 35% of the value of the Fund's capital measured immediately after issuance. The Fund intends to purchase or redeem Fund Preferred Shares, if necessary, to keep that fraction below one-half.

DISTRIBUTION PREFERENCE. The Fund Preferred Shares will have complete priority over the Common Shares as to distribution of assets.

LIQUIDATION PREFERENCE. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Fund, holders of Fund Preferred Shares will be entitled to receive a preferential liquidating distribution (expected to equal the original purchase price per share plus accumulated and unpaid dividends thereon, whether or not earned or declared) before any distribution of assets is made to Common Shareholders.

VOTING RIGHTS. Fund Preferred Shares are required to be voting shares. Except as otherwise provided in the Fund's Declaration or Bylaws and except as otherwise required by applicable law, holders of Fund Preferred

Shares will vote together with Common Shareholders as a single class. In order for the Fund to take certain actions or enter into certain transactions, a separate class vote of holders of Fund Preferred Shares will be required, in addition to the combined single class vote of the holders of Fund Preferred Shares and Common Shares.

Holders of Fund Preferred Shares, voting as a separate class, will be entitled to elect two of the Fund's Trustees. The remaining Trustees will be

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elected by Common Shareholders and holders of Fund Preferred Shares, voting together as a single class. In the event that two full years of accrued dividends are unpaid on the Fund Preferred Shares, the holders of all outstanding Fund Preferred Shares, voting as a separate class, will be entitled to elect a majority of the Fund's Trustees until all dividends in arrears have been paid or otherwise provided for by the Fund. In order for the Fund to take certain actions or enter into certain transactions, a separate class vote of holders of Fund Preferred Shares will be required, in addition to the combined single class vote of the holders of Fund Preferred Shares and Common Shares.

REDEMPTION, PURCHASE AND SALE OF FUND PREFERRED SHARES. The terms of the Fund Preferred Shares may provide that they are redeemable at certain times, in whole or in part, at the original purchase price per share plus accumulated dividends. The terms may also state that the Fund may tender for or purchase Fund Preferred Shares and resell any shares so tendered. Any redemption or purchase of Fund Preferred Shares by the Fund will reduce the leverage applicable to Common Shares, while any resale of shares by the Fund will increase such leverage. See "Use of Leverage."

The discussion above describes the Board of Trustees' present intention with respect to a possible offering of Fund Preferred Shares. If the Board of Trustees determines to authorize such an offering, the terms of the Fund Preferred Shares may be the same as, or different from, the terms described above, subject to applicable law and the Fund's Declaration and Bylaws. In addition, any rating agency rating the Fund Preferred Shares may require terms in addition to, or different from, those described above.

See "Description of Shares" in the SAI for a more detailed summary of the terms of the Fund's shares.

As of the date of this prospectus, the Investment Manager owned of record and beneficially 7,000 Common Shares, constituting 100% of the outstanding shares of the Fund, and thus, until the public offering of the Common Shares is completed, will control the Fund.

CERTAIN PROVISIONS IN THE DECLARATION OF TRUST

The Declaration includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status. The Fund's Trustees are divided into three classes. At each annual meeting of shareholders, the term of one class will expire and each Trustee elected to that class will hold office for a term of three years. The classification of the Board of Trustees in this manner could delay for an additional year the replacement of a majority of the Board of Trustees. In addition, the Declaration provides that a Trustee may be removed only for cause and only (i) by action of at least seventy-five percent (75%) of the outstanding shares of the classes or series of shares entitled to vote for the election of such Trustee, or (ii) by at least seventy-five percent (75%) of the remaining Trustees.

As described below, the Declaration grants special approval rights with respect to certain matters to members of the Board who qualify as "Continuing Trustees," which term means a Trustee who either (i) has been a member of the Board for a period of at least thirty-six months (or since immediately after the initial registered public offering of the Fund's Common Shares, if less than thirty-six months) or (ii) was nominated to serve as a member of the Board of Trustees by a majority of the Continuing Trustees then members of the Board.

The Declaration requires the affirmative vote or consent of at least seventy-five percent (75%) of the Board of Trustees and holders of at least seventy-five percent (75%) of the Fund's shares (including Common

Shares and Fund Preferred Shares) to authorize certain Fund transactions not in the ordinary course of business, including a merger or consolidation, or certain sales, or transfers, of Fund assets, unless the transaction is authorized by both a majority of the Trustees and seventy-five percent (75%) of the Continuing Trustees (in which case no shareholder authorization would be required by the Declaration, but may be required in certain cases under the 1940 Act). The Declaration also requires the affirmative vote or consent of holders of at least seventy-five percent (75%) of each class of the Fund's shares entitled to vote on the matter to authorize a conversion of the Fund from a closed-end to an open-end investment company, unless the conversion is authorized by both a majority of the Trustees and seventy-five percent (75%) of the Continuing Trustees (in which case shareholders would have only the minimum voting rights required by the 1940 Act with respect to the conversion). Also, the Declaration provides that, subject to the terms of any Fund Preferred Shares that may be set forth in the Bylaws, the Fund may be terminated at any time by vote or consent of at least seventy-five percent (75%) of the Fund's shares or, alternatively, by vote or consent of both a majority of the Trustees and seventy-five percent (75%) of the Continuing Trustees. The Declaration also requires the approval of both a majority of the Trustees and seventy-five percent (75%) of the Continuing Trustees for certain extraordinary distributions from the Fund to shareholders. The voting provisions discussed in this section are more restrictive than those required under the 1940 Act and Massachusetts law. See "Certain Provisions in the Declaration of Trust" in the SAI for a more detailed summary of these provisions.

The Trustees may from time to time grant other voting rights to shareholders with respect to these and other matters as the Trustees may consider necessary or desirable.

The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a third party. They provide, however, the advantage of potentially requiring persons seeking control of the Fund to negotiate with its management regarding the price to be paid and facilitating the continuity of the Fund's investment objective and policies. The provisions of the Declaration described above could have the effect of depriving the Common Shareholders of opportunities to sell their Common Shares at a premium over the then current market price of the Common Shares by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. The Board of Trustees of the Fund has considered the foregoing anti-takeover provisions and concluded that they are in the best interests of the Fund and its Common Shareholders.

The foregoing is intended only as a summary and is qualified in its entirety by reference to the full text of the Declaration and the Fund's Bylaws, both of which are on file with the Securities and Exchange Commission.

Under Massachusetts law, shareholders could, in certain circumstances, be held personally liable for the obligations of the Fund. However, the Declaration contains an express disclaimer of shareholder liability for debts or obligations of the Fund and requires that notice of such limited liability be given in each note, bond, contract, instrument, certificate or undertaking made or issued by the Trustees or any officer or officers of the Fund. The Declaration further provides for indemnification by the Fund for all loss and expense of any shareholder or former shareholder held personally liable on account of being or having been a shareholder of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Fund would be unable to meet its obligations. The Fund believes that the likelihood of such circumstances is

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remote.

UNDERWRITING

Subject to the terms and conditions stated in the purchase agreement dated November 25, 2002, each underwriter named below has severally agreed to purchase, and the Fund has agreed to sell to such underwriter, the number of Common Shares set forth opposite the name of such underwriter.

UNDERWRITER -----	NUMBER OF COMMON SHARES -----
Merrill Lynch, Pierce, Fenner & Smith Incorporated.....	490,000
Prudential Securities Incorporated.....	350,000
Advest, Inc.....	250,000
Legg Mason Wood Walker, Incorporated.....	250,000
Quick & Reilly, Inc.....	250,000
RBC Dain Rauscher Inc.....	185,000
Ferris, Baker Watts, Incorporated.....	185,000
J.J.B. Hilliard, W.L. Lyons, Inc.....	185,000
McDonald Investments Inc., a KeyCorp Company	185,000
TD Waterhouse Investor Services, Inc.....	185,000
Wedbush Morgan Securities Inc.....	185,000
U.S. Bancorp Piper Jaffray Inc.....	100,000
Wachovia Securities, Inc.....	100,000
William Blair & Company, L.L.C.....	50,000
Brean Murray & Co., Inc.....	50,000
C.E. Unterberg, Towbin.....	50,000
Crowell, Weedon & Co.....	50,000
D.A. Davidson & Co.....	50,000
Fahnestock & Co. Inc.....	50,000
Johnston, Lemon & Co. Incorporated.....	50,000
Morgan Keegan & Company, Inc.....	50,000
Parker/Hunter Incorporated.....	50,000
Stephens Inc.....	50,000
Stifel, Nicolaus & Company, Incorporated....	50,000
Utendahl Capital Partners, L.P.....	50,000
Gilford Securities Incorporated.....	25,000
Howe Barnes Investments, Inc.....	25,000
Mesirow Financial, Inc.....	25,000
NatCity Investments, Inc.....	25,000
Nutmeg Securities, Ltd.....	25,000
Pacific Crest Securities, Inc.....	25,000
SWS Securities, Inc.....	25,000
Sands Brothers & Co., Ltd.....	25,000
Sterling Financial Investment Group, Inc....	25,000
Torrey Pines Securities.....	25,000

Total.....	3,750,000
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The purchase agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to the approval of

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certain legal matters by counsel and to certain other conditions. The underwriters are obligated to purchase all the Common Shares sold under the purchase agreement if any of the Common Shares are purchased. In the purchase agreement, the Fund and the Investment Manager have agreed to indemnify the underwriters against certain liabilities, including liabilities arising under the Securities Act of 1933, or to contribute payments the underwriters may be required to make for any of those liabilities.

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The underwriters propose to initially offer some of the Common Shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the Common Shares to certain dealers at the public offering price less a concession not in excess of \$.45 per share. The sales load investors in the Fund will pay of \$.675 per share is equal to 4.5% of the initial offering price. The underwriters may allow, and the dealers may reallow, a discount not in excess of \$.10 per share on sales to other dealers. After the initial public offering, the public offering price, concession and discount may be changed. Investors must pay for any Common Shares purchased on or before November 29, 2002.

The following table shows the public offering price, sales load and proceeds before expenses to the Fund. The information assumes either no exercise or full exercise by the underwriters of their over-allotment option.

	PER SHARE -----	WITHOUT OPTION -----	WITH OPTION -----
Public offering price.....	\$15.00	\$56,250,000	\$64,687,500
Sales load.....	\$.675	\$2,531,250	\$2,910,937
Estimated offering expenses	\$.03	\$112,500	\$129,375
Proceeds to the Fund.....	\$14.295	\$53,606,250	\$61,647,188

The expenses of the offering are estimated at \$924,100 (\$927,800 if the underwriters' option described below is exercised in full) and are payable by the Fund. The Fund has agreed to pay Merrill Lynch \$0.005 per common share as a partial reimbursement of expenses incurred in connection with the offering. The Investment Manager has agreed to pay the amount by which the aggregate of all of the Fund's organizational expenses and offering costs (other than the sales load) exceeds \$0.03 per Common Share.

The Fund has granted the underwriters an option to purchase up to 562,500 additional Common Shares at the public offering price, less the sales load, within 45 days from the date of this prospectus to cover over-allotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the purchase agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

Until the distribution of the Common Shares is complete, Securities and Exchange Commission rules may limit underwriters and selling group members from bidding for and purchasing the Common Shares. However, the representatives may engage in transactions that stabilize the price of the Common Shares, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in the Common Shares in

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connection with the offering (I.E., if they sell more Common Shares than are listed on the cover of this prospectus), the representatives may reduce that short position by purchasing Common Shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the over-allotment option described above. The underwriters also may impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker-dealers in respect of the Common Shares sold in this offering for their account may be reclaimed by the syndicate if such Common Shares are repurchased by the syndicate in stabilizing or covering transactions. Purchases of the Common Shares to stabilize their price or to reduce a short position may cause the price of the Common Shares to be higher than it might be in the absence of such purchases.

Neither the Fund nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transaction described above may have on the price of the Common Shares. In addition, neither the Fund nor any of the underwriters makes any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The Fund has agreed not to offer or sell any additional Common Shares (other than Common Shares issued in connection with the Plan) for a period of 180 days after the date of the purchase agreement without the prior written consent of the underwriters, except for the sale of the Common Shares to the underwriters pursuant to the purchase agreement.

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The Fund anticipates that the underwriters may from time to time act as brokers or dealers in executing the Fund's portfolio transactions after they have ceased to be underwriters. The underwriters are active underwriters of, and dealers in, securities and act as market makers in a number of such securities, and therefore can be expected to engage in portfolio transactions with the Fund.

The Investment Manager has also agreed to pay from its own assets additional compensation to Merrill Lynch. This additional compensation will be payable quarterly at the annual rate of .10% of the Fund's managed assets during the continuance of the Investment Management Agreement or other advisory agreement between the Investment Manager and the Fund. The total amount of these additional payments will not exceed 4.5% of the total price to the public of the Common Shares sold in this offering; provided, that in determining when the maximum additional compensation amount has been paid, the value of each of the quarterly payments shall be discounted at the annual rate of 10% to the closing date of this offering. Merrill Lynch has agreed to provide certain after-market support services to the Investment Manager designed to maintain the visibility of the Fund on an ongoing basis and to provide relevant information, studies or reports regarding the Fund and the closed-end investment company industry.

The address of Merrill Lynch is 4 World Financial Center, New York, New York 10080.

CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REGISTRAR

Investors Bank & Trust Company, whose principal business address is 200 Clarendon Street, Boston, Massachusetts 02116, has been retained to act as custodian of the Fund's investments, and EquiServe, whose principal business address is 150 Royall Street, Canton, Massachusetts 02021, has been retained to serve as the Fund's transfer and dividend disbursing agent and registrar.

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Neither Investors Bank & Trust Company nor EquiServe has any part in deciding the Fund's investment policies or which securities are to be purchased or sold for the Fund's portfolio.

REPORTS TO SHAREHOLDERS

The Fund will send unaudited semi-annual and audited annual reports to its shareholders, including a list of investments held.

LEGAL MATTERS

The validity of the shares offered hereby is being passed on for the Fund by Ropes & Gray, Boston, Massachusetts, and certain other legal matters will be passed on for the underwriters by Clifford Chance US LLP, New York, New York. Clifford Chance US LLP may rely as to certain matters of Massachusetts law on the opinion of Ropes & Gray.

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CDC IXIS ASSET MANAGEMENT SERVICES, INC. AEW REAL ESTATE INCOME FUND

NOTICE OF PRIVACY POLICIES AND PRACTICES

CDC IXIS/1/ is dedicated to protecting the confidentiality of any nonpublic personal information provided by our customers/2/. We understand the trust that our customers place in us and are committed to earning that trust well into the future.

TYPES OF INFORMATION GATHERED

CDC IXIS collects personal information on applications, forms, documents, transaction histories and correspondence (electronic, written and telephonic)

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with customers. Through our web sites we gather information about visitors and their needs submitted through answers to surveys, data input to calculators and information entered onto forms. This information includes but is not limited to name, postal address, e-mail address and social security number. Much of the data collected is statistical in nature and is not generally attributable to any specific customer.

INFORMATION SHARED

It is the position of CDC IXIS that the information we collect, as described above, may be shared with its corporate affiliates in the financial services industry in order to enhance and improve customer communications, services, and products designed to meet our customers' needs. CDC IXIS does not disclose any nonpublic information about current or former customers to any unaffiliated third party except as permitted by law, or at the specific request of the customer. However, we may disclose some or all of the above information to affiliated and unaffiliated companies that perform marketing and other services (such as preparing and mailing prospectuses, reports and account statements, conducting research on client satisfaction, and gathering votes for shareholder proxies) on our or the Funds' behalf or to other financial institutions with whom we have joint marketing agreements.

POLICIES AND PRACTICES

Only those CDC IXIS employees that have a business need for personally identifiable data about our customers are given access to that information. CDC IXIS maintains physical, electronic, and procedural safeguards that comply with federal standards to protect your nonpublic personal information.

/1/ For purposes of this notice CDC IXIS includes AEW Real Estate Income Fund and CDC IXIS Asset Management Services, Inc.

/2/ For purposes of this notice, the terms CUSTOMER or CUSTOMERS include both shareholders of AEW Real Estate Income Fund and individuals who provide nonpublic personal information, but do not invest in the Fund.

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3,750,000 SHARES

AEW REAL ESTATE INCOME FUND

COMMON SHARES

\$15.00 PER SHARE

PROSPECTUS

MERRILL LYNCH & CO.

PRUDENTIAL SECURITIES

LEGG MASON WOOD WALKER
INCORPORATED

RBC CAPITAL MARKETS

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ADVEST, INC.

FERRIS, BAKER WATTS,
INCORPORATED

J.J.B. HILLIARD, W.L. LYONS, INC.

MCDONALD INVESTMENTS INC.

QUICK & REILLY, INC.

TD WATERHOUSE

WEDBUSH MORGAN SECURITIES INC.

NOVEMBER 25, 2002

CEAEW15-1002

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Filed Pursuant to Rule 497(h)
File No. 333-100018

AEW REAL ESTATE INCOME FUND

399 Boylston Street
Boston, Massachusetts 02116

(800) 862-4863

STATEMENT OF ADDITIONAL INFORMATION

November 25, 2002

AEW Real Estate Income Fund (the "Fund") is a newly organized, non-diversified, closed-end management investment company organized as a Massachusetts business trust on September 18, 2002.

This Statement of Additional Information relating to the common shares ("Common Shares") of the Fund is not a prospectus, but should be read in conjunction with the prospectus of the Fund, dated November 25, 2002, as supplemented from time to time (the "Prospectus"). This Statement of Additional Information does not include all information that a prospective investor should consider before purchasing Common Shares, and investors should obtain and read the Prospectus prior to purchasing such shares. This Statement of Additional Information is incorporated by reference in its entirety into the Prospectus. Copies of the Statement of Additional Information and Prospectus may be obtained free of charge by writing or calling the address or phone number shown above. You may also obtain a copy of the Prospectus on the web site (<http://www.sec.gov>) of the Securities and Exchange Commission ("SEC"). Capitalized terms used but not defined herein have the same meanings ascribed to them in the Prospectus.

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INVESTMENT OBJECTIVES AND POLICIES

Additional Information Regarding Fund Investments

The following descriptions supplement the descriptions of the principal investment objectives, strategies and risks set forth in the Prospectus. Except as specifically provided herein, the Fund's investment policies are not fundamental and may be changed by the Board of Trustees of the Fund without the approval of the shareholders.

Investments In Real Estate Companies And Real Estate Investment Trusts

Under normal market conditions, the Fund will invest at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares (preferred shares that, during certain periods or upon the happening of certain events, may be converted into common shares) and debt securities issued by real estate companies, including real estate investment trusts ("REITs"). For purposes of the Fund's investment policies, a "Real Estate Company" is one that generally derives at least 50% of its revenues from the ownership, construction, financing, management or sale of commercial, industrial, or residential real estate; or has at least 50% of its assets invested in such real estate. Under normal market conditions, at least 80% of the Fund's total assets will be invested in income-producing equity securities issued by REITs. It is the Fund's fundamental policy to concentrate its investments in the U.S. real estate industry (including REITs) and not in any other industry.

Lower-Rated Securities

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Under rating agency guidelines, medium- and lower-rated securities and comparable unrated securities will likely have some quality and protective characteristics that are outweighed by large uncertainties or major risk exposures to adverse conditions. Medium- and lower-rated securities may have poor prospects of ever attaining any real investment standing, may have a current identifiable vulnerability to default, may be unlikely to have the capacity to pay interest and repay principal when due in the event of adverse business, financial or economic conditions, and/or may be likely to be in default or not current in the payment of interest or principal. Such securities are considered speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. Accordingly, it is possible that these types of factors could reduce the value of securities held by the Fund, with a commensurate effect on the value of the Fund's shares.

Changes by recognized rating services in their ratings of any fixed-income security and in the ability of an issuer to make payments of interest and principal may also affect the value of these investments. A description of the ratings of certain rating agencies is set forth in Appendix A. The ratings generally represent the opinions of those organizations as to the quality of the securities that they rate. Such ratings, however, are relative and subjective, are not absolute standards of quality, are subject to change and do not evaluate the market risk or liquidity of the securities. Ratings of a non-U.S. debt instrument, to the extent that those ratings are undertaken, are related to evaluations of the country in which the issuer of the instrument is located. Ratings generally take into account the currency in which a non-U.S. debt instrument is denominated.

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The secondary markets for lower-rated securities are generally not as liquid as the secondary markets for higher rated securities. The secondary markets for lower-rated securities are concentrated in relatively few market makers and participants in the market are generally institutional investors, including insurance companies, banks, other financial institutions and mutual funds. In addition, the trading volume for lower-rated securities is generally lower than that for higher-rated securities and the secondary markets could contract under adverse market or economic conditions independent of any specific adverse changes in the condition of a particular issuer. These factors may have an adverse effect on the ability of the Fund to dispose of particular portfolio investments, may adversely affect the Fund's net asset value per share and may limit the ability of the Fund to obtain accurate market quotations for purposes of valuing securities and calculating net asset value. If the Fund is not able to obtain precise or accurate market quotations for a particular security, it will become more difficult to value its portfolio securities, and a greater degree of judgment may be necessary in making such valuations. Less liquid secondary markets may also affect the ability of the Fund to sell securities at their fair value. If the secondary markets for lower-rated securities contract due to adverse economic conditions or for other reasons, certain liquid securities in the Fund's portfolio may become illiquid and the proportion of the Fund's assets invested in illiquid securities may significantly increase.

Prices for lower-rated securities may be affected by legislative and regulatory developments to a greater extent than higher-rated securities. These laws could adversely affect the Fund's net asset value and investment practices, the secondary market for lower-rated securities, the financial condition of

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issuers of these securities and the value of outstanding lower-rated securities. For example, federal legislation requiring the divestiture by federally insured savings and loan associations of their investments in lower-rated bonds and limiting the deductibility of interest by certain corporate issuers of lower-rated bonds adversely affected the market in the past.

While the market values of securities rated below investment grade and comparable unrated securities tend to react less to fluctuations in interest rate levels than do those of higher-rated securities, the values of certain of these securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher rated securities. In addition, such securities present a higher degree of credit risk. Issuers of these securities are often highly leveraged and may not have more traditional methods of financing available to them, so that their ability to service their debt obligations during an economic downturn or during sustained periods of rising interest rates may be impaired. The risk of loss due to default by such issuers is significantly greater than with investment grade securities because such securities generally are unsecured and subordinated to the prior payment of senior indebtedness. The Fund also may incur additional expenses to the extent that it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings.

The Fund may only invest in non-investment grade securities that are rated CCC or higher by Standard & Poor's Ratings Services ("S&P") or Caa or higher by Moody's Investors Service, Inc. ("Moody's") (or a comparable rating by another nationally recognized statistical rating agency), or unrated securities determined to be of comparable quality by the Investment Manager. The issuers of these securities may be in default or have a currently identifiable vulnerability to default on their payments of principal and interest, or may otherwise be subject to present

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elements of danger with respect to payments of principal or interest. The Fund will not invest in securities that are in default as to payment of principal and interest at the time of purchase.

Swap Agreements

The Fund may enter into interest rate swap or cap transactions for purposes of attempting to reduce or eliminate the impact that an increase in short-term interest rates could have on the Fund's investments and capital structure. Swap transactions are two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than one year. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross returns to be exchanged or "swapped" between the parties are calculated with respect to a "notional amount," i.e., the return on or increase in value of a particular dollar amount invested at a particular interest rate or in a "basket" of securities representing a particular index. Commonly used swap transactions include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap"; (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates

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fall below a specified level, or "floor"; and (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels.

The "notional amount" of the swap transaction is only a fictitious basis on which to calculate the obligations that the parties to a swap transaction have agreed to exchange. Most swap transactions entered into by the Fund would calculate the obligations on a "net basis." Consequently, the Fund's obligations (or rights) under a swap transaction will generally be equal only to the net amount to be paid or received under the transaction based on the relative values of the positions held by each party to the transaction (the "net amount"). Obligations under a swap transaction will be accrued daily (offset against amounts owing to the Fund) and any accrued but unpaid net amounts owed to a swap counterparty will be covered by segregating liquid assets. The Fund will not enter into a swap transaction with any single party if the net amount owed to or to be received under existing contracts with that party would exceed 5% of the Fund's total assets.

Common Shareholders will bear the risks and costs of swaps, caps or other interest rate transactions entered into by the Fund.

Foreign Securities

The Fund may invest up to 10% of its total assets in the securities of non-U.S. issuers located in countries that are members of the Organisation For Economic Co-operation and Development.

Investors should recognize that investing in the securities of foreign issuers involves special considerations which are not typically associated with investing in the securities of U.S. issuers. Investments in securities of foreign issuers may involve risks arising from differences between U.S. and foreign securities markets, including less volume, much greater price volatility

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in and illiquidity of certain foreign securities markets, different trading and settlement practices and less (or different) governmental supervision and regulation, from changes in currency exchange rates, from high and volatile rates of inflation, from economic, social and political conditions and, as with domestic multinational corporations, from fluctuating interest rates.

Other investment risks include the possible imposition of foreign withholding taxes on certain amounts of the Fund's income, the possible seizure or nationalization of foreign assets and the possible establishment of exchange controls, expropriation, confiscatory taxation, other foreign governmental laws or restrictions which might affect adversely payments due on securities held by the Fund, the lack of extensive operating experience of eligible foreign sub-custodians and legal limitations on the ability of the Fund to recover assets held in custody by a foreign sub-custodian or depository in the event of the sub-custodian's or depository's bankruptcy or other event adversely affecting such sub-custodian or depository.

In addition, there may be less publicly-available information about a foreign issuer than about a U.S. issuer, and foreign issuers may not be subject to the same accounting, auditing and financial record-keeping standards and requirements as U.S. issuers. In particular, the assets and profits appearing on

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the financial statements of a foreign issuer may not reflect its financial position or results of operations in the way they would be reflected had the financial statements been prepared in accordance with U.S. generally accepted accounting principles. In addition, for an issuer that keeps accounting records in local currency, inflation accounting rules may require, for both tax and accounting purposes, that certain assets and liabilities be restated on the issuer's balance sheet in order to express items in terms of currency of constant purchasing power. Inflation accounting may indirectly generate losses or profits. Consequently, financial data may be materially affected by restatements for inflation and may not accurately reflect the real condition of those issuers and securities markets. Finally, in the event of a default in any such foreign obligations, it may be more difficult for the Fund to obtain or enforce a judgment against the issuers of such obligations.

There generally is less governmental supervision and regulation of exchanges, brokers and issuers in foreign countries than there is in the United States. For example, in some jurisdictions there may be no comparable provisions under certain foreign laws to insider trading and similar investor protection securities laws that apply with respect to securities transactions consummated in the United States. Further, brokerage commissions and other transaction costs on foreign securities exchanges generally are higher than in the United States.

The manner in which foreign investors may invest in companies in certain foreign countries, as well as limitations on such investments, also may have an adverse impact on the operations of the Fund. For example, the Fund may be required in some countries to invest initially through a local broker or other entity and then have the purchased shares re-registered in the name of the Fund. Re-registration may be costly and may in some instances not occur on a timely basis, resulting in a delay during which the Fund may be denied certain of its rights as an investor.

Foreign markets have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Further, satisfactory

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custodial services for investment securities may not be available in some countries having smaller capital markets, which may result in the Fund incurring additional costs and delays in transporting such securities outside such countries. Delays in settlement or other problems could result in periods when assets of the Fund are uninvested and no return is earned thereon. The inability of the Fund to make intended security purchases due to settlement problems or the risk of intermediary counterparty failures could cause the Fund to forego attractive investment opportunities. The inability to dispose of a portfolio security due to settlement problems could result either in losses to the Fund due to subsequent declines in the value of such portfolio security or, if the Fund has entered into a contract to sell the security, could result in possible liability to the purchaser.

Rules adopted under the Investment Company Act of 1940, as amended (the "1940 Act"), permit the Fund to maintain its foreign securities and cash in the custody of certain eligible non-U.S. banks and securities depositories. Certain banks in foreign countries may not be "eligible sub-custodians," as defined in the 1940 Act, for the Fund, in which event the Fund may be precluded from purchasing securities in certain foreign countries in which it otherwise would invest or may incur additional costs and delays in providing transportation and custody services for such securities outside of such countries. The Fund may encounter difficulties in effecting, on a timely basis, portfolio transactions

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with respect to any securities of issuers held outside their countries. Other banks that are eligible foreign sub-custodians may be recently organized or otherwise lack extensive operating experience. In addition, in certain countries there may be legal restrictions or limitations on the ability of the Fund to recover assets held in custody by foreign sub-custodians in the event of the bankruptcy of the sub-custodian.

Illiquid Securities

The Fund may invest in securities that are illiquid so long as no more than 10% of the total assets of the Fund (taken at market value at the time of investment) would be invested in such securities. The above limitation applies only at the time a security is purchased, and the Fund is not required to dispose of securities if, due to market movements, greater than 10% of the Fund's total assets are invested in illiquid securities. The term "illiquid securities" for these purposes means securities that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the Fund has valued the securities. The staff of the SEC is presently of the view that repurchase agreements maturing in more than seven days are subject to this restriction. Until that position is revised, modified or rescinded, the Fund will conduct its operations in a manner consistent with this view. This limitation on investment in illiquid securities does not apply to certain restricted securities, including securities issued pursuant to Rule 144A under the Securities Act of 1933 and certain commercial paper, that AEW Management and Advisors, L.P. (the "Investment Manager") has determined to be liquid under procedures approved by the Board of Trustees.

The Board of Trustees has delegated to the Investment Manager the day-to-day determination of the illiquidity of any security held by the Fund, although it has retained oversight and ultimate responsibility for such determinations. Certain illiquid securities may require pricing at fair value as determined in good faith under the supervision of the Board of Trustees. See "Determination of Net Asset Value." The Investment Manager may be subject to significant delays in disposing of illiquid securities held by the Fund, and transactions in illiquid

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securities may entail registration expenses and other transaction costs that are higher than those for transactions in liquid securities. If adverse market conditions were to develop during any such delay, the Fund might obtain a less favorable price than that which prevailed when it decided to sell.

As discussed in the Prospectus under "Interest Rate Transactions," the Fund intends to segregate cash or liquid securities with its custodian having a value at least equal to the Fund's net payment obligations under any swap transaction, as marked to market daily. The Fund will treat such amounts as illiquid for purposes of its 10% limit on investments in illiquid securities.

Other Investment Companies

The Fund may invest in securities of open- or closed-end investment companies that invest primarily in investments of the types in which the Fund may invest directly. The Fund may invest in other investment companies either during periods when it has large amounts of uninvested cash, such as the period shortly after the Fund receives the proceeds of the offering of its Common Shares or the planned offering of its preferred shares of beneficial interest ("Fund Preferred Shares"), during periods when there is a shortage of

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attractive, real estate-related investments available in the market, to gain exposure to foreign markets, when the Investment Manager believes share prices of other investment companies offer attractive values or when it believes such investments are attractive investment opportunities. The Fund may invest in investment companies that are advised by the Investment Manager or its affiliates (including affiliated money market and short-term bond funds) to the extent permitted by applicable law and/or pursuant to exemptive relief from the SEC. As a stockholder in an investment company, the Fund will bear its ratable share of that investment company's expenses and Fund shareholders would remain subject to payment of the Fund's management fees with respect to assets so invested. Holders of Common Shares ("Common Shareholders") would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. The Investment Manager will take expenses into account when evaluating the investment merits of an investment in an investment company relative to other investments. In addition, the securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks described in the Prospectus and herein. As described in the Prospectus in the section entitled "Use of Leverage--Leverage Risks," the net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares.

U.S. Government Securities

U.S. Government securities are obligations of, or guaranteed by, the U.S. Government, its agencies or instrumentalities. The U.S. Government does not guarantee the net asset value of the Fund's shares. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association, are supported by the full faith and credit of the United States; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the U.S. Government will provide financial support to U.S.

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Government-sponsored instrumentalities if it is not obligated to do so by law. U.S. Government securities include securities that have no coupons, or have been stripped of their unmatured interest coupons, individual interest coupons from such securities that trade separately and evidences of receipt of such securities. Such securities may pay no cash income, and are purchased at a deep discount from their value at maturity. Custodial receipts issued in connection with so-called trademark zero-coupon securities, such as CATs and TIGRs, are not issued by the U.S. Treasury, and are therefore not U.S. Government securities, although the underlying bond represented by such receipt is a debt obligation of the U.S. Treasury. Other zero-coupon Treasury securities (e.g., STRIPs and CUBEs) are direct obligations of the U.S. Government.

Corporate Bonds

The Fund may invest in a wide variety of debt obligations of varying maturities issued by U.S. and foreign corporations and other business entities, including REITs. Bonds are fixed or variable rate debt obligations, including bills, notes, debentures and similar instruments and securities. Bonds generally are used by corporations and other issuers to borrow money from investors. The

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issuer pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity. Certain bonds are "perpetual" in that they have no maturity date. The Fund will invest in U.S. dollar-denominated corporate bonds and may also invest in bonds denominated in foreign currencies in accordance with the Fund's investment objectives and policies as described in the Prospectus. The Fund has the flexibility to invest in corporate bonds that are below investment grade quality. See "- Lower-Rated Securities" above.

Many bonds, especially those issued at high interest rates, provide that the issuer may repay them early. Issuers often exercise this right when interest rates decline. Accordingly, holders of securities that may be called or prepaid may not benefit fully from the increase in value that other fixed income securities experience when rates decline. Furthermore, the Fund reinvests the proceeds of the payoff at current yields, which typically are lower than those paid by the security that was paid off.

Convertible Securities

The Fund may invest in convertible securities. A convertible debt security is a bond, debenture, note, or other security that entitles the holder to acquire common stock or other equity securities of the same or a different issuer. Similarly, certain classes of preferred stock are convertible, meaning the preferred stock is convertible into shares of common stock of the issuer. A convertible security generally entitles the holder to receive interest or dividends paid or accrued until the convertible security matures or is redeemed, converted or exchanged. By holding a convertible security, the Fund can receive a steady stream of interest payments or dividends and still have the option to convert the security to common stock.

As a fixed income security, a convertible debt or equity security tends to increase in market value when interest rates decline and to decrease in value when interest rates rise. While convertible securities generally offer lower interest or dividend yields than non-convertible

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securities of similar quality, their value tends to increase as the market value of the underlying stock increases and to decrease when the value of the underlying stock decreases.

Convertible securities generally rank senior to common stock in a corporation's capital structure and, therefore, generally entail less risk than the corporation's common stock. A convertible security may be subject to redemption at the option of the issuer at a predetermined price. If a convertible security held by the Fund is called for redemption, the Fund would be required to permit the issuer to redeem the security and convert it to underlying common stock, or would sell the convertible security to a third party.

The Fund may also invest in so-called "synthetic convertible securities," which are composed of two or more different securities whose investment characteristics, taken together, resemble those of convertible securities. For example, the Fund may purchase a non-convertible debt security and a warrant or option. The synthetic convertible differs from the true convertible security in several respects. Unlike a true convertible security, which is a single security having a unitary market value, a synthetic convertible comprises two or more separate securities, each with its own market

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value. Therefore, the "market value" of a synthetic convertible is the sum of the values of its fixed income component and its convertible component. For this reason, the values of a synthetic convertible and a true convertible security may respond differently to market fluctuations.

Short Sales

A short sale is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. The Fund will not enter into short sales except for interest rate hedging purposes as described in the Prospectus.

When the Fund makes a short sale on a security, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The Fund may have to pay a fee to borrow particular securities and is often obligated to pay over any accrued interest and dividends on such borrowed securities.

If the price of the security sold short increases between the time of the short sale and the time the Fund replaces the borrowed security, the Fund will incur a loss; conversely, if the price declines, the Fund will realize a capital gain. Any gain will be decreased, and any loss increased, by the transaction costs described above. The successful use of short selling may be adversely affected by imperfect correlation between movements in the price of the security sold short and the securities being hedged.

To the extent that the Fund engages in short sales, it will provide collateral to the broker-dealer. A short sale is "against the box" to the extent that the Fund contemporaneously owns, or has the right to obtain at no added cost, securities identical to those sold short. The Fund may also engage in so-called "naked" short sales (i.e., short sales that are not "against the box"), in which case the Fund's losses could theoretically be unlimited, in cases where the Fund is unable for whatever reason to close out its short position.

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Derivative Instruments

The Fund may invest in derivatives for interest rate hedging purposes as described in the Prospectus. The Fund may purchase and sell (write) both put options and call options on securities, swap agreements, and securities indexes, and enter into interest rate and index futures contracts and purchase and sell options on such futures contracts ("futures options") for these purposes. The Fund may also use other types of instruments that are currently available or that may be introduced in the future, including other types of options, futures contracts or futures options, provided that their use is consistent with the Fund's investment objectives.

The value of some derivative instruments in which the Fund may invest may be particularly sensitive to changes in prevailing interest rates, and, like the other investments of the Fund, the ability of the Fund to utilize these instruments successfully may depend in part upon the ability of the Investment Manager to forecast interest rates and other economic factors correctly. If the Investment Manager incorrectly forecasts such factors and has taken positions in derivative instruments contrary to prevailing market trends, the Fund could be exposed to the risk of loss.

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The Fund might not employ any derivatives, and no assurance can be given that any strategy used will succeed. If the Investment Manager incorrectly forecasts interest rates, market values or other economic factors in utilizing a derivatives strategy for the Fund, the Fund might have been in a better position if it had not entered into the transaction at all. Also, suitable derivative transactions may not be available in all circumstances. The use of these strategies involves certain special risks, including a possible imperfect correlation, or even no correlation, between price movements of derivative instruments and price movements of related investments. While some strategies involving derivative instruments can reduce the risk of loss, they can also reduce the opportunity for gain or even result in losses by offsetting favorable price movements in related investments or otherwise, due to the possible inability of the Fund to purchase or sell a portfolio security at a time that otherwise would be favorable or the possible need to sell a portfolio security at a disadvantageous time because the Fund is required to maintain asset coverage or offsetting positions in connection with transactions in derivative instruments and due to the possible inability of the Fund to close out or to liquidate its derivatives positions.

Short-Term Investments and Borrowings

In anticipation of or in response to adverse market conditions, for cash management purposes, or for defensive purposes, the Fund may invest up to 100% of its net assets in cash equivalents and short-term fixed-income securities. The Fund would be unable to achieve its investment objectives if a substantial portion of its assets consisted of such investments. Short-term fixed income investments include, without limitation, the following:

(1) U.S. government securities, including bills, notes and bonds differing as to maturity and rates of interest that are either issued or guaranteed by the U.S. Treasury or by U.S. government agencies or instrumentalities. U.S. government agency securities include securities issued by (a) the Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration and the Government National

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Mortgage Association, whose securities are supported by the full faith and credit of the United States; (b) the Federal Home Loan Banks, Federal Intermediate Credit Banks, and the Tennessee Valley Authority, whose securities are supported by the right of the agency to borrow from the U.S. Treasury; (c) the Federal National Mortgage Association, whose securities are supported by the discretionary authority of the U.S. Government to purchase certain obligations of the agency or instrumentality; and (d) the Student Loan Marketing Association, whose securities are supported only by its credit. While the U.S. Government provides financial support to such U.S. government-sponsored agencies or instrumentalities, no assurance can be given that it always will do so since it is not so obligated by law. The U.S. Government, its agencies and instrumentalities do not guarantee the market value of their securities. Consequently, the value of such securities may fluctuate.

(2) Certificates of Deposit issued against funds deposited in a bank or a savings and loan association. Such certificates are for a definite period of time, earn a specified rate of return, and are normally negotiable. The issuer of a certificate of deposit agrees to pay the amount deposited plus interest to the bearer of the certificate on the date specified thereon. Under current FDIC regulations, the maximum insurance payable as to any one certificate of deposit is \$100,000; therefore, certificates of deposit purchased by the Fund may not be

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fully insured.

(3) Repurchase agreements, which involve purchases of debt securities. At the time the Fund purchases securities pursuant to a repurchase agreement, it simultaneously agrees to resell and redeliver such securities to the seller, who also simultaneously agrees to buy back the securities at a fixed price and time. This assures a predetermined yield for the Fund during its holding period, since the resale price is always greater than the purchase price and reflects an agreed-upon market rate. Such actions afford an opportunity for the Fund to invest temporarily available cash. The Fund may enter into repurchase agreements only with respect to obligations of the U.S. Government, its agencies or instrumentalities; certificates of deposit; or bankers' acceptances in which the Fund may invest. Repurchase agreements may be considered loans to the seller, collateralized by the underlying securities. The risk to the Fund is limited to the ability of the seller to pay the agreed-upon sum on the repurchase date; in the event of default, the repurchase agreement provides that the Fund is entitled to sell the underlying collateral. If the value of the collateral declines after the agreement is entered into, and if the seller defaults under a repurchase agreement when the value of the underlying collateral is less than the repurchase price, the Fund could incur a loss of both principal and interest. The Investment Manager monitors the value of the collateral at the time the action is entered into and at all times during the term of the repurchase agreement. The Investment Manager does so in an effort to determine that the value of the collateral always equals or exceeds the agreed-upon repurchase price to be paid to the Fund. If the seller were to be subject to a federal bankruptcy proceeding, the ability of the Fund to liquidate the collateral could be delayed or impaired because of certain provisions of the bankruptcy laws.

(4) Commercial paper, which consists of short-term unsecured promissory notes, including variable rate master demand notes issued by corporations to finance their current operations. Investments in commercial paper will be limited to commercial paper rated in the highest categories by a major rating agency and which mature within one year of the date of purchase or carry a variable or floating rate of interest. Master demand notes are direct lending arrangements between the Fund and a corporation. There is no secondary market for such notes.

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However, they are redeemable by the Fund at any time. The Investment Manager will consider the financial condition of the corporation (e.g., earning power, cash flow, and other liquidity measures) and will continuously monitor the corporation's ability to meet all of its financial obligations, because the Fund's liquidity might be impaired if the corporation were unable to pay principal and interest on demand.

(5) Shares of other investment companies that in turn invest in short-term investments, such as money market mutual funds. Subject to certain restrictions contained in any applicable exemptive order issued by the SEC, these investments may include investment companies such as money market funds advised or subadvised by the Investment Manager or its affiliates.

The Fund may borrow money for temporary administrative purposes. Subject to the terms of any applicable exemptive relief granted by the SEC, the Fund may borrow for such purposes from other investment companies advised by the Investment Manager or its affiliates in an inter-fund loan program. In such a program, the Fund and affiliated funds would be permitted to lend and borrow money for certain temporary purposes directly to and from one another.

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Participation in such an inter-fund lending program would be voluntary for both borrowing and lending funds, and the Fund would participate in an inter-fund loan program only if the Board of Trustees determined that doing so would benefit the Fund. Should the Fund participate in such an inter-fund lending program, the Board of Trustees would establish procedures for the operation of the program by the Investment Manager or an affiliate.

Portfolio Turnover

The Fund may engage in frequent and active portfolio trading when the Investment Manager considers it to be appropriate, but the Fund will not use short-term trading as the primary means of achieving its investment objectives. Although the Fund cannot accurately predict its annual portfolio turnover rate, it is not expected to exceed 100% under normal circumstances. However, there are no limits on the rate of portfolio turnover, and investments may be sold without regard to the length of time held when, in the opinion of the Investment Manager, investment considerations warrant such action. A higher turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. High portfolio turnover may result in the increased realization of net short-term capital gains by the Fund that, when distributed to shareholders, will be taxable as ordinary income. See "Taxation."

Certain Affiliations

Certain broker-dealers may be considered to be affiliated persons of the Fund and/or the Investment Manager due to their possible affiliations with CDC IXIS Asset Management North America, L.P. Absent an exemption from the SEC or other regulatory relief, the Fund is generally precluded from effecting certain principal transactions with affiliated brokers, and its ability to purchase securities being underwritten by an affiliated broker or a syndicate including an affiliated broker or to utilize affiliated brokers for agency transactions is subject to regulatory and other restrictions. This could limit the Fund's ability to engage in securities transactions and take advantage of market opportunities.

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Other Investments; New Securities And Other Investment Techniques.

Although the Fund invests primarily in the securities of Real Estate Companies, it may from time to time also invest in equity or debt securities of issuers in other industries. Such investments may be subject to different or additional risks, including, among others, the risk that market prices of equity securities may rise and fall rapidly and unpredictably and the risk that debt securities may lose value when interest rates rise.

New types of securities and other investment and hedging practices are developed from time to time. The Investment Manager expects, consistent with the Fund's investment objectives and policies, to invest in such new types of securities and to engage in such new types of investment practices if the Investment Manager believes that these investments and investment techniques may assist the Fund in achieving its investment objectives. In addition, the Investment Manager may use investment techniques and instruments that are not specifically described herein.

INVESTMENT RESTRICTIONS

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The investment objectives and the general investment policies and investment techniques of the Fund are described in the Prospectus. The Fund's investment objectives are fundamental, and the Fund has also adopted the following investment restrictions as fundamental policies. The Fund's investment objectives and the following investment restrictions may not be changed without the approval of the holders of a majority of the outstanding shares (as defined in the 1940 Act) of the Fund.

Under these policies:

(1) The Fund may not make short sales of securities or maintain a short position or purchase securities on margin, except that the Fund may obtain short-term credits as necessary for the clearance of security transactions, and the Fund may make any short sales or maintain any short positions where the short sales or short positions would not constitute "senior securities" under the 1940 Act.

(2) The Fund may borrow money to the maximum extent permitted by law, including without limitation (i) borrowing from banks or entering into reverse repurchase agreements, or employing similar investment techniques, and pledging its assets in connection therewith, and (ii) entering into reverse repurchase agreements and transactions in options, futures, options on futures, and forward foreign currency contracts.

(3) The Fund may not make loans, except that the Fund may purchase or hold debt instruments in accordance with its investment objectives and policies. This restriction does not apply to repurchase agreements or loans of portfolio securities.

(4) The Fund may not act as an underwriter of securities of other issuers except that, in the disposition of portfolio securities, it may be deemed to be an underwriter under the federal securities laws.

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(5) The Fund may not purchase or sell real estate, although it may purchase securities of real estate investment trusts, issuers which deal in real estate, securities which are secured by interests in real estate, and securities which represent interests in real estate, and it may acquire and dispose of real estate or interests in real estate acquired through the exercise of its rights as a holder of debt obligations secured by real estate or interests therein.

(6) The Fund may not purchase or sell commodities, except that the Fund may purchase and sell futures contracts and options, may enter into foreign exchange contracts and may enter into swap agreements and other financial transactions not requiring the delivery of physical commodities.

(7) The Fund may not issue senior securities, except for permitted borrowings or as otherwise permitted under the 1940 Act.

In addition to these investment restrictions, the Fund will make investments that will result in the concentration (as that term may be defined by or interpreted under the 1940 Act and the rules and regulations thereunder) of its investments in the securities of issuers primarily engaged in the real estate industry (including real estate investment trusts) and not in any other industry. This restriction does not apply to U.S. Government Securities. For purposes of this restriction, telephone, gas and electric public utilities are each regarded as separate industries and finance companies whose financing activities are related primarily to the activities of their parent companies are

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classified in the industry of their parents. For purposes of this restriction with regard to bank obligations, bank obligations are considered to be one industry, and asset-backed securities are not considered to be bank obligations. This policy may not be changed without the approval of the holders of a "majority of the outstanding shares" (as defined in the 1940 Act) of the Fund.

In addition to the fundamental investment policies identified as such above, the Fund has adopted, among others, the following non-fundamental investment policy. Under normal market conditions, the Fund will invest at least 90% of its total assets in common shares, preferred shares, convertible preferred shares and debt securities issued by Real Estate Companies (as defined in this Statement of Additional Information) ("Basket Investments"). The Board of Trustees of the Fund may change the preceding policy without shareholder approval. However, so long as it is required by applicable law, the Fund will not change the policy in order to reduce below 80% the portion of its net assets (plus any borrowings for investment purposes) that the Fund will invest, under normal market conditions, in Basket Investments unless it provides shareholders with at least 60 days' written notice of such change.

The percentages and percentage limitations set forth above or in the Prospectus, other than with respect to restriction (2) pertaining to borrowing, will apply at the time of the purchase of a security and shall not be considered violated unless an excess or deficiency occurs or exists immediately after and as a result of a purchase of such security. Restrictions (1) and (7) shall be interpreted based upon no-action letters and other pronouncements of the SEC or its staff. Under current pronouncements, certain Fund positions are excluded from the definition of "senior security" so long as the Fund maintains adequate cover, segregation of assets or otherwise.

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The Fund intends to apply for ratings for its Fund Preferred Shares (if issued) from one or more nationally recognized statistical rating agencies. In order to obtain and maintain the required ratings, the Fund may be required to comply with investment quality, diversification and other guidelines established by such rating agencies. Such guidelines will likely be more restrictive than the restrictions set forth above. The Fund does not anticipate that such guidelines would have a material adverse effect on Common Shareholders or the Fund's ability to achieve its investment objectives. The Fund presently anticipates that any Fund Preferred Shares that it may issue would be initially given the highest rating (i.e., AAA/Aaa) by at least one nationally recognized statistical rating agency, but no assurance can be given that such rating(s) will be obtained or that the Fund Preferred Shares will be issued. Rating agencies receive fees in connection with their ratings issuances. In addition to other considerations, to the extent that the Fund believes that the covenants and guidelines required by the rating agencies would materially impede its ability to meet its investment objectives, or if the Fund is unable to obtain its desired rating on the Fund Preferred Shares (expected to be AAA/Aaa), the Fund will not issue the Fund Preferred Shares.

MANAGEMENT OF THE FUND

The Fund is governed by a Board of Trustees, which is responsible for generally overseeing the conduct of Fund business and for protecting the interests of shareholders. Subject to the provisions of the Fund's Amended and Restated Agreement and Declaration of Trust, its Amended and Restated Bylaws and

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Massachusetts law, the Trustees have all power necessary and convenient to carry out this responsibility, including the election and removal of the Fund's officers. The Trustees meet periodically throughout the year to oversee the Fund's activities, review contractual arrangements with companies that provide services to the Fund and review the Fund's performance.

The table below provides certain information regarding the Trustees and officers of the Fund. For purposes of this table and for purposes of this Statement, the term "Independent Trustee" means those Trustees who are not "interested persons" (as defined in the 1940 Act) of the Fund and, when applicable, who have no direct or indirect financial interest in the approval of a matter being voted on by the Board of Trustees. For purposes of this Statement of Additional Information, the term "Interested Trustee" means those Trustees who are "interested persons" of the Fund and, when applicable, who have a direct or indirect financial interest in the approval of a matter being voted on by the Board of Trustees.

Name, Age and Address	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen	Other
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INDEPENDENT TRUSTEES

Graham T. Allison, Jr. (62) 399 Boylston Street Boston, MA 02116	Trustee Contract Review and Governance	Term expires in 2003*	Douglas Dillon Professor and Director for the Belfer Center of Science and International Affairs, John F. Kennedy	28	Direc Board
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Name, Age and Address	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen	Ot
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Committee
Member

Since
inception
(October
2002)

School of Government,
Harvard University

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Daniel M. Cain (57) 452 Fifth Avenue New York, NY 10018	Trustee Chairman of the Audit Committee	Term expires in 2004* Since inception (October 2002)	President and CEO, Cain Brothers & Company, Incorporated (investment banking)	28	Tr Re Di Di
Kenneth J. Cowan (70) 399 Boylston Street Boston, MA 02116	Trustee Chairman of the Contract Review and Governance Committee	Term expires in 2004* Since inception (October 2002)	Retired	28	No
Richard Darman (59) 399 Boylston Street Boston, MA 02116	Trustee Contract Review and Governance Committee Member	Term expires in 2003* Since inception (October 2002)	Partner, The Carlyle Group (investments); Professor, John F. Kennedy School of Government, Harvard University	28	Di Ve Di Co Di So Di
Sandra O. Moose (60) Exchange Place Boston, MA 02109	Trustee Audit Committee Member	Term expires in 2005* Since inception (October 2002)	Senior Vice President and Director, The Boston Consulting Group, Inc. (management consulting)	28	Di Co Di Co
John A. Shane (69) 200 Unicorn Park Drive Woburn, MA 01801	Trustee Audit Committee Member	Term expires in 2005* Since inception (October 2002)	President, Palmer Service Corporation (venture capital organization)	28	Di Co Ge Di St
Pendleton P. White (71) 6 Breckenridge Lane Savannah, GA 31411	Trustee Contract Review and Governance Committee Member	Term expires in 2003* Since inception (October 2002)	Retired	28	No
INTERESTED TRUSTEES					
John T. Hailer** (41) 399 Boylston Street Boston, MA 02116	President and Chief Executive Officer	Term as Trustee expires in 2004*	President and Chief Executive Officer, CDC IXIS Asset Management Distributors, L.P.; Director and Executive	28	No

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Trustee	Since inception (October 2002)	Vice President of CDC IXIS Asset Management Distribution Corporation ("CDC IXIS Distribution Corporation"); President and Chief Executive Officer
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Name, Age and Address	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen	Other
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			of CDC IXIS Asset Management Advisers, L.P. ("CDC IXIS Advisers"); formerly, Senior Vice President, Fidelity Investments		
Peter S. Voss*** (55) 399 Boylston Street Boston, MA 02116	Chairman of the Board Trustee	Term expires in 2005* Since inception (October 2002)	Director, President and Chief Executive Officer, CDC IXIS Asset Management North America, L.P.	28	Tr In

OFFICERS

James J. Finnegan (42) 399 Boylston Street Boston, MA 02116	Chief Operating Officer	Not Applicable (October 2002)	AEW Management and Advisers, L.P., - General Counsel, Managing Director, Vice President and Clerk, December 1996 to present; AEW Capital Management, L.P. - General Counsel and Principal, January 2000 to present, Assistant General Counsel and Vice President, December 1996 to January 2000; AEW Advisors, Inc. - Managing Director and Vice President, December 1996 to Present; AEW Investment Group, Inc. - Vice	N/A	N/
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President and Assistant Clerk, December, 1996 to Present; AEW Real Estate Advisors, Inc . - Vice President and Assistant Clerk, December 1996 to Present; Aldrich, Eastman & Waltch, L.P. - Assistant General Counsel and Vice President, October 1994 to December, 1996; Capital Management Resources, L.P. - General Counsel and Vice President, July 1993 to October 1994

Mark E. Bradley
(42)
399 Boylston Street
Boston, MA 02116

Treasurer

Not Applicable

Since inception (October 2002)

Senior Vice President and Deputy Treasurer, CDC IXIS Asset Management Services, Inc.; Vice President and Assistant Treasurer, MFS Investment Management, 1997-2002; Vice President, Putnam Investments, 1994 to 1997; Senior Tax Manager, Ernst & Young LLP, 1985 to 1994

N/A

N/A

John E. Pelletier (38)
399 Boylston Street
Boston, MA 02116

Secretary and Clerk

Not Applicable

Since inception (October 2002)

Senior Vice President, General Counsel, Secretary and Clerk, CDC IXIS Distribution Corporation; Senior Vice President, General Counsel, Secretary and Clerk, CDC IXIS Asset Management Distributors, L.P.; Senior Vice President, General Counsel, Secretary and Clerk, CDC IXIS Asset Management Advisers, L.P.; Executive Vice President,

N/A

N/A

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Name, Age and Address	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen	Ot
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General Counsel, Secretary,
Clerk, and Director, CDC
IXIS Asset Management
Services, Inc.;
formerly, Senior Vice
President and General
Counsel, Funds
Distributor, Inc.;
formerly, Vice President
and General Counsel,
Boston Institutional
Group; formerly, Senior
Vice President and
General Counsel,
Financial Research
Corporation

*Subject to a Trustee's earlier retirement, resignation, disqualification or removal from the Board. The current retirement age is 72.

**Mr. Hailer is an "interested person" of the Fund because he holds the following positions with affiliated persons of the Fund: President and Chief Executive Officer of CDC IXIS Asset Management Distributors, L.P.; Director and Executive Vice President of CDC IXIS Distribution Corporation; and President and Chief Executive Officer of CDC IXIS Advisers.

***Mr. Voss is an "interested person" of the Fund because he holds the following positions with affiliated persons of the Fund: Director of CDC IXIS Asset Management Services, Inc.; Director of CDC IXIS Distribution Corporation; Director, President and Chief Executive Officer of CDC IXIS Asset Management North America, L.P.; Director of AEW Capital Management, Inc.; Director of Harris Associates, Inc.; Director of Jurika & Voyles, Inc.; Director of Loomis, Sayles & Company, Inc.; Director of Reich & Tang Asset Management Inc.; Director of Westpeak Investment Advisors, Inc.; and Director of Vaughan, Nelson, Scarborough & McCullough, Inc.

****As of September 30, 2002, Harris Associates Investment Trust had seven series that were overseen by its Board of Trustees.

Each Trustee of the Fund also serves as a trustee for CDC Nvest Funds Trust I, II and III, CDC Nvest Companies Trust I, CDC Nvest Cash Management Trust-Money Market Series and CDC Nvest Tax Exempt Money Market Trust (collectively, the "CDC Nvest Trusts"), each of which is advised by affiliates of the Investment Manager. Previous positions during the past five years with CDC IXIS Asset Management Distributors, L.P. or CDC IXIS Advisers are omitted, if not materially different from a trustee's or officer's current position with such entity.

In accordance with the Fund's staggered board (see "Anti-Takeover and Other Provisions in the Declaration of Trust"), the Common Shareholders of the Fund will elect Trustees to fill the vacancies of Trustees whose terms expire at each

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annual meeting of Common Shareholders. While any Fund Preferred Shares are outstanding, holders of the Fund Preferred Shares, voting as a separate class, will elect two Trustees and the remaining Trustees shall be elected by Common Shareholders and holders of Fund Preferred Shares, voting together as a single class, in each case in accordance with the Fund's staggered board structure. Holders of the Fund Preferred Shares will be entitled to elect a majority of the Fund's Trustees under certain circumstances.

The following table states the dollar range of equity securities beneficially owned by each Trustee in the Fund and, on an aggregate basis, in any registered investment companies overseen by the Trustees in the Fund's "family of investment companies," which includes CDC Nvest

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AEW Real Estate Fund (a series of CDC Nvest Companies Trust I), an open-end investment company that is managed by the Investment Manager.

Name of Trustee/1/ -----	Dollar Range of Equity Securities in the Fund -----	Aggregate Dollar Range of Equity Securities in All Funds Overseen Trustee in Family of Investment Companies -----

INDEPENDENT TRUSTEE		

Kenneth J. Cowan	None	\$10,001 - \$50,000

INTERESTED TRUSTEE		

Peter S. Voss	None	Over \$100,000

(1) Except as disclosed above, no Trustee of the Fund owns securities of the Fund or CDC Nvest AEW Real Estate Fund. Information about ownership is shown as of December 31, 2001 for the CDC Nvest AEW Real Estate fund. Because the Fund is newly organized, information about ownership of its securities is shown as of November 22, 2002.

Standing Board Committees

The Contract Review and Governance Committee of the Fund is comprised solely of Independent Trustees and considers matters relating to advisory, subadvisory and distribution arrangements, potential conflicts of interest between the Investment Manager and the Fund, and governance matters relating to the Fund.

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The Audit Committee of the Fund is comprised solely of Independent Trustees and considers matters relating to the scope and results of the Fund's audits and serves as a forum in which the independent accountants can raise any issues or problems identified in the audit with the Board of Trustees. This Committee also reviews and monitors compliance with stated investment objectives and policies, SEC and Treasury regulations as well as operational issues relating to the transfer agent, administrator, sub-administrator and custodian.

Each Committee of the Board has held one meeting to date.

Trustee Fees

The Fund pays no compensation to its officers or to its Interested Trustees. Each other Trustee of the Fund receives a fee of \$2,000 annually for serving as a Trustee of the Fund, and a fee of \$375 and related expenses for each meeting of the Board of Trustees attended. Each Committee member receives a fee of \$2,000 annually for Committee service, and will also receive a meeting fee of \$200 for each additional meeting after the first four meetings of a Committee during a given year. In addition, the Chairpersons of the Contract Review and Governance and Audit Committees each receive an additional fee of \$1,000 per year.

During the year ended December 31, 2001 (the fiscal year ended January 31, 2002, for CDC Nvest Companies Trust I), the Trustees of the Fund received the amounts set forth in the following table for serving as trustees of the CDC Nvest Trusts. The table also includes amounts expected to be paid to the Trustees by the Fund for service as Trustees during the partial fiscal year ended January 31, 2003.

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Name of Trustee -----	Estimated Compensation from the Fund for the Fiscal Year Ending January 31, 2003*	Pension or Retirement Benefits Accrued as Part of Fund Expenses*	Estimated Annual Benefits Upon Retirement*	Total Compensati from the CDC Nvest Trusts and Fund*+
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INDEPENDENT				
Graham T. Allison, Jr.	\$2,000	\$0	\$0	\$66,264
Daniel M. Cain	\$2,687	\$0	\$0	\$70,998
Kenneth J. Cowan	\$2,687	\$0	\$0	\$70,786
Richard Darman	\$2,375	\$0	\$0	\$66,639
Sandra O. Moose	\$2,000	\$0	\$0	\$66,265
John A. Shane	\$2,375	\$0	\$0	\$66,640
Pendleton P. White	\$2,375	\$0	\$0	\$66,640
INTERESTED				

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Peter S. Voss	\$	0	\$0	\$0	\$	0
John T. Hailer	\$	0	\$0	\$0	\$	0

*Since the Fund has not completed its first full fiscal year, compensation is estimated based upon future payments to be made by the Fund during the current fiscal year.

+Total Compensation represents amounts paid during 2001 (during the fiscal year ended January 31, 2002, for CDC Nvest Companies Trust I) to a trustee for serving on the board of trustees of 6 trusts with a total of 27 funds as of December 31, 2001, as well as estimated amounts to be paid by the Fund during the current fiscal year. Amounts include payments deferred by Trustees for 2001 (for the year ended January 31, 2002, for CDC Nvest Companies Trust I).

The Fund provides no pension or retirement benefits to its Trustees.

Shareholders

As of November 22, 2002, the following person owned of record the number of Common Shares noted below, representing the indicated percentage of the Fund's outstanding shares as of such date.

Shareholder	Number of Common Shares	Percentage of the Fund's Fund's Outstanding as of November 22, 2002
AEW Management and Advisors, L.P.	7,000	100%

INVESTMENT ADVISORY AND OTHER SERVICES

The Investment Manager

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The Investment Manager has been retained to provide investment advice, and, in general, to conduct the investment program of the Fund under the overall

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supervision and control of the Trustees of the Fund. The Investment Manager is a real estate investment advisory firm that provides investment management and related services to institutional and retail investors. The Investment Manager employs 180 investment professionals in offices located in Boston, Los Angeles, Washington, DC, and London and utilizes the resources of a dedicated in-house research group in place since 1988. Together with its affiliates operating under the AEW name, the Investment Manager managed approximately \$6.9 billion of client capital as of September 30, 2002 (approximately \$7.0 billion as of June 30, 2002), including the assets of some of the nation's leading public and private pension funds, union retirement funds, and university endowments. The Investment Manager managed approximately \$2.1 billion in REIT securities as of September 30, 2002 (\$1.7 billion as of June 30, 2002). The Investment Manager's address is Two Seaport Lane, World Trade Center East, Boston, Massachusetts 02210.

The Investment Manager is a registered investment adviser whose origins date back to 1981. The Investment Manager is a limited partnership that is a controlled affiliate of AEW Capital Management, L.P., which in turn is a wholly-owned subsidiary of CDC IXIS Asset Management Holdings, LLC ("CDC IXIS Holdings"), which in turn is a wholly-owned subsidiary of CDC IXIS Asset Management North America, L.P. ("CDC IXIS North America"). CDC IXIS North America owns the entire limited partnership interest in the Investment Manager. CDC IXIS North America, together with its subsidiaries and affiliates in the U.S., Europe and Asia, managed approximately \$291 billion in assets for institutions and individuals as of September 30, 2002 (approximately \$310 billion as of June 30, 2002).

Pursuant to the Investment Management Agreement, the Investment Manager furnishes a continuous investment program for the Fund's portfolio, makes the day-to-day investment decisions for the Fund, executes the purchase and sale orders for the portfolio transactions of the Fund and generally manages the Fund's investments in accordance with the stated policies of the Fund, subject to the general supervision of the Board of Trustees of the Fund.

Under the Investment Management Agreement, the Fund pays the Investment Manager a monthly management fee computed at the annual rate of .80% of the average daily value of the managed assets (which include the liquidation preference on any Preferred Shares and the principal amount on any borrowings used for leverage) of the Fund, subject to certain fee waivers described in the Prospectus. During the time in which the Fund is utilizing leverage, the fees paid to the Investment Manager and its affiliates for investment management, administrative and other services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's managed assets, which include the liquidation preference of any Fund Preferred Shares and the principal amount of any borrowings used for leverage. Only the Fund's Common Shareholders bear the Fund's fees and expenses.

Trustee Approval of the Investment Management Agreement

The Board of Trustees approved the Investment Management Agreement at a meeting held on October 10, 2002. As noted above, each Trustee also serves as a trustee for the CDC Nvest Funds, including the CDC Nvest AEW Real Estate Fund, an open-end investment company managed by the Investment Manager that principally invests in the securities of real estate companies. As a result, the Trustees, in their collective years of service as trustees of such

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funds, have gained significant knowledge regarding matters such as the fees and expenses of investment companies; the services generally provided by investment advisors to an investment company; the benefits of the advisory relationship to an investment advisor; and the operations and prior performance of the Investment Manager.

In connection with their meeting, the Trustees met with representatives of the Investment Manager, including investment advisory personnel, and reviewed materials specifically relating to the Investment Management Agreement, including materials prepared by Fund counsel and counsel to the Independent Trustees. In considering the Investment Management Agreement, the Board of Trustees, including the Independent Trustees, did not identify any single factor as determinative. Matters considered by the Board of Trustees, including the Independent Trustees, in connection with its approval of the Investment Management Agreement included the following:

- . the economic outlook and the general investment outlook in the markets in which the Fund proposes to invest, as well as the investment performance of a peer group of funds (including other funds advised by the Investment Manager) and the performance of an appropriate index.
- . the Investment Manager's investment philosophy and process, operational stability and financial condition, as well as the size and experience of the Investment Manager's investment staff.
- . the expected quality of the Investment Manager's services with respect to compliance with the Fund's investment policies and restrictions and its policies on personal securities transactions.
- . the nature, quality, and extent of services to be performed by the Investment Manager pursuant to the Investment Management Agreement.
- . the Fund's expected expense ratio and the expense ratios of a peer group of funds. They also considered (i) the Investment Manager's agreement to waive a portion of its investment management fees and the financial impact on the Investment Manager of such waiver, and (ii) the amount and nature of fees paid by shareholders, including the fact that the Investment Manager has agreed to pay organizational expenses and offering costs of the Fund (other than the sales load) that exceed \$0.03

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per Common Share. For these purposes, the Trustees took into account not only the fees paid by the Fund, but also so-called "fallout benefits" to the Investment Manager, such as the engagement of CDC IXIS Asset Management Services, Inc., an affiliate of the Investment Manager, to provide administrative services to the Fund, and the expected benefits of research made available to the Investment Manager by reason of brokerage commissions generated by the Fund's securities transactions. In evaluating the Fund's investment management fees, the Trustees also took into

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account the demands, complexity and expected quality of the investment management of the Fund. The Trustees also noted the fact that, because the advisory fees paid to the Investment Manager (as well as the fees paid to CDC IXIS Asset Management Services, Inc.) by the Fund are based on the Fund's managed assets, which include the liquidation preference on any Fund Preferred Shares and the principal amount of any borrowings used for leverage, the Investment Manager has a financial incentive for the Fund to issue Fund Preferred Shares and use other forms of leverage, which may create a conflict of interest between the Investment Manager and the Fund's shareholders.

- . the level of profits expected to be realized by the Investment Manager and its affiliates in connection with the operation of the Fund. In this respect, the Trustees considered certain ongoing commissions that are expected to be paid by the Investment Manager out of its own assets to the underwriters for the offering of the Common Shares and the Investment Manager's agreement to waive a portion of its investment management fees.

- . whether there is potential for realization of any economies of scale with respect to the management of the Fund and whether the Fund will appropriately benefit from such economies of scale.

Based on their evaluation of all factors that they deemed to be material, including, but not limited to, those factors described above, and assisted by the advice of independent counsel, the Trustees, including the Independent Trustees, concluded that the proposed investment management fee structure was fair and reasonable, and that approval of the Investment Management Agreement was in the best interest of the Fund and its shareholders.

Administrative Services

Pursuant to an Administrative Services Agreement between the Fund and CDC IXIS Asset Management Services, Inc. ("CDC IXIS Services"), an affiliate of the Investment Manager, CDC IXIS Services also performs or arranges for the performance of certain administrative and accounting functions for the Fund,

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including: (i) providing persons satisfactory to the Trustees of the Fund to serve as officers and, in that capacity, manage the daily operations of the Fund; (ii) processing the payment of expenses for the Fund; (iii) supervising the preparation of periodic reports to the Fund's shareholders; (iv) preparing materials for Fund Board and Committee meetings; (v) supervising the pricing of the Fund's investment portfolio and the publication of the net asset value of the Fund's shares, earnings reports and other financial data; (vi) monitoring relationships with organizations providing services to the Fund, including the custodian, transfer agent and printers; (vii) supervising compliance by the Fund with record-keeping requirements under the 1940 Act and regulations thereunder, maintaining books and records for the Fund (other than those maintained by the Investment Manager, custodian and/or transfer agent) and preparing and filing of tax reports other than the Fund's income tax returns; and (viii) providing executive, clerical and secretarial help needed to carry out these responsibilities.

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Under the terms of the Administrative Services Agreement, the Fund pays CDC IXIS Services a monthly administration fee computed on the basis of the average daily managed assets of the Fund at an annual rate equal to 0.06% of the first \$300 million in assets and 0.0575% of assets in excess of \$300 million, with a minimum annual fee of \$150,000.

In accordance with the terms of the Administrative Services Agreement and with the approval of the Fund's Board of Trustees, CDC IXIS Services has retained Investors Bank & Trust Company as sub-administrator under a sub-administration agreement (the "Sub-Administration Agreement"). Under the Sub-Administration Agreement, Investors Bank & Trust Company has assumed responsibility for performing certain of the foregoing administrative functions, including (i) determining, together with the Fund's custodian, the Fund's net asset value and preparing these figures for publication; (ii) maintaining certain of the Fund's books and records that are not maintained by the Investment Manager, CDC IXIS Services, the custodian or transfer agent; (iii) preparing financial information for the Fund's income tax returns, proxy statements, shareholder reports, and SEC filings; and (iv) responding to shareholder inquiries.

Under the terms of the Sub-Administration Agreement, CDC IXIS Services (and not the Fund) pays Investors Bank & Trust Company a monthly sub-administration fee computed on the basis of the managed assets of the Fund at an annual rate equal to 0.015% of the first \$300 million in managed assets and 0.012% thereafter. As discussed below under "Custodian and Transfer and Dividend Disbursing Agent," Investors Bank & Trust Company is also the Fund's custodian.

The personnel acting as officers of the Fund are employees or officers of the Investment Manager, CDC IXIS Services or their affiliates. The Fund does not pay for services performed by officers of the Investment Manager, CDC IXIS Services or their affiliates, other than amounts payable under the Investment Management and Administrative Services Agreements.

Marketing Agent

CDC IXIS Asset Management Advisors Group (the "Advisors Group"), an affiliate of the Investment Manager, will act as marketing agent for the Fund in connection with the offering of the Common Shares by preparing marketing materials and providing distribution support during the offering. The Advisors Group has agreed, pursuant to an agreement with the Investment Manager, (i) to

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reimburse the Investment Manager for one-half of the amount by which the aggregate of all of the Fund's organizational expenses and offering costs (other than the sales load) exceeds \$0.03 per Common Share and (ii) to bear a portion of any ongoing asset-based fees to be paid by the Investment Manager to the underwriters (other than Merrill Lynch, Pierce, Fenner & Smith Incorporated) in connection with the offering in the amount of 21.8% of such fees in years one and two of the Fund's operations and in declining amounts for each of the four years thereafter. As payment for these services, the Investment Manager (and not the Fund) has agreed to pay the Advisors Group a fee at the annual rate of 0.12% of net assets for years one and two of the Fund's operations, 0.08% of net assets for years three and four, and 0.05% of net assets in years five and six. The Investment Manager has not agreed to pay any fees to the Advisors Group (and the Advisor's Group has not agreed to bear any portion of any asset-based fees payable by the Investment Manager) beyond year six of the Fund's operations. The Advisors Group and the Investment Manager, both of which are subsidiaries of CDC IXIS Asset Management North America, L.P., may agree to change or eliminate these payments at any time.

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Custodian And Transfer And Dividend Disbursing Agent

Investors Bank & Trust Company, which has its principal business office at 200 Clarendon Street, Boston, Massachusetts 02116, has been retained to act as custodian of the Fund's investments and EquiServe Trust Company, N.A. and EquiServe, Inc. (together, "EquiServe"), which have a principal business office at 150 Royall Street, Canton, Massachusetts 02021-1031, have been retained to act as the Fund's transfer and dividend disbursing agent. Neither Investors Bank & Trust Company nor EquiServe has any part in deciding the Fund's investment policies or which securities are to be purchased or sold for the Fund's portfolio.

CDC IXIS Services remains responsible for monitoring and overseeing the performance by Investors Bank & Trust Company and EquiServe, as sub-administrator and custodian and transfer and disbursing agent, respectively, of their obligations to the Fund under their respective agreements with the Fund, subject to the overall authority of the Fund's Board of Trustees.

Code Of Ethics

The Fund and the Investment Manager have adopted Codes of Ethics pursuant to Rule 17j-1 under the 1940 Act. The Codes of Ethics permit employees to invest in securities for their own accounts, under certain circumstances, including securities that may be purchased or held by the Fund. Text-only versions of the codes of ethics may be viewed online or downloaded from the EDGAR Database on the SEC's internet web site at www.sec.gov. You may also review and copy those documents by visiting the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 202-942-8090. In addition, copies of the Codes of Ethics may be obtained, after mailing the appropriate duplicating fee, by writing to the SEC's Public Reference Section, 450 5th Street, N.W., Washington, DC 20549-0102 or by e-mail request at publicinfo@sec.gov.

PORTFOLIO TRANSACTIONS AND BROKERAGE

Subject to policies established by the Board and the oversight of the Investment Manager, the Investment Manager is primarily responsible for the

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Fund's portfolio decisions and the placing of the Fund's portfolio transactions.

Fixed-income securities, certain short-term securities and certain equities normally will be purchased or sold from or to issuers directly or to dealers serving as market makers for the securities at a net price, which may include dealer spreads and underwriting commissions. Equity securities may also be purchased or sold through brokers who will be paid a commission.

The general policy of the Fund in selecting brokers and dealers is to obtain the best results taking into account factors such as the general execution and operational facilities of the broker or dealer, the type and size of the transaction involved, the creditworthiness of the broker or dealer, the stability of the broker or dealer, execution and settlement capabilities, time required to negotiate and execute the trade, research services and the Investment Manager's arrangements related thereto (as described below), overall performance, the dealer's risk in positioning the securities involved, and the broker's commissions and dealer's spread or mark-

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up. While the Investment Manager generally seeks the best price in placing its orders, the Fund may not necessarily be paying the lowest price available.

Notwithstanding the above, in compliance with Section 28(e) of the Securities Exchange Act of 1934, as amended, the Investment Manager may select brokers who charge a commission in excess of that charged by other brokers if the Investment Manager determines in good faith that the commission to be charged is reasonable in relation to the brokerage and research services provided to the Investment Manager by such brokers. Research services generally consist of research or statistical reports or oral advice from brokers and dealers regarding particular companies, industries or general economic conditions. The Investment Manager may also have arrangements with brokers pursuant to which such brokers provide research services to the Investment Manager in exchange for a certain volume of brokerage transactions to be executed by such broker. While the payment of higher commissions increases the Fund's costs, the Investment Manager does not believe that the receipt of such brokerage and research services significantly reduces its expenses as the Investment Manager. Arrangements for the receipt of research services from brokers may create conflicts of interest.

Research services furnished to the Investment Manager by brokers who effect securities transactions for the Fund may be used by the Investment Manager in servicing other investment companies and accounts which it manages. Similarly, research services furnished to the Investment Manager by brokers who effect securities transactions for other investment companies and accounts which the Investment Manager manages may be used by the Investment Manager in servicing the Fund. Not all of these research services are used by the Investment Manager in managing any particular account, including the Fund.

Under the 1940 Act, "affiliated persons" of the Fund are prohibited from dealing with it as a principal in the purchase and sale of securities unless an exemptive order allowing such transactions is obtained from the SEC. However, the Fund may purchase securities from underwriting syndicates of which the Investment Manager or any of its affiliates (as defined in the 1940 Act) is a member under certain conditions, in accordance with Rule 10f-3 promulgated under the 1940 Act. See "Investment Objectives and Policies - Certain Affiliations."

The Fund contemplates that, consistent with the policy of obtaining the

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best net results, brokerage transactions may be conducted through "affiliated broker/dealers," as defined in the 1940 Act. The Board of Trustees has adopted procedures in accordance with Rule 17e-1 promulgated under the 1940 Act to ensure that all brokerage commissions paid to such affiliates are reasonable and fair in the context of the market in which such affiliates operate. Any such compensation will be paid in accordance with applicable SEC regulations.

Investment decisions for the Fund are made independently from those of other funds or accounts managed by the Investment Manager. Such other funds or accounts may also invest in the same securities as the Fund. If those funds or accounts are prepared to invest in, or desire to dispose of, the same security at the same time as the Fund, however, transactions in such securities will be made, insofar as feasible, for the respective funds and accounts in a manner deemed equitable to all. In some cases, this procedure may adversely affect the size of the position obtained for or disposed of by the Fund or the price paid or received by the Fund. In

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addition, because of different investment objectives, a particular security may be purchased for one or more funds or accounts when one or more funds or accounts are selling the same security.

DETERMINATION OF NET ASSET VALUE

The method for determining the net asset value per Common Share is summarized in the Prospectus.

The total net asset value of the Common Shares (the excess of the assets of the Fund over the Fund's liabilities) is determined at the close of regular trading (normally 4:00 p.m. Eastern time) on each day that the New York Stock Exchange (the "Exchange") is open for trading. In addition, in the Investment Manager's discretion, the Fund's shares may be priced on a day the Exchange is closed for trading if the Investment Manager in its discretion determines that it is advisable to do so based primarily upon factors such as whether (i) there has been enough trading in that Fund's portfolio securities to affect materially the net asset value of the Fund's shares and (ii) whether in the Investment Manager's view sufficient information (e.g., prices reported by pricing services) is available for the Fund's shares to be priced. The Fund does not expect to price its shares on the following holidays: New Year's Day, Martin Luther King Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Securities listed on a national securities exchange or on the NASDAQ National Market System are valued at their last sale price, or, if there is no reported sale during the day, the last reported bid price estimated by a broker. Unlisted securities traded in the over-the-counter market are valued at the last reported bid price in the over-the-counter market or on the basis of yield equivalents as obtained from one or more dealers that make a market in the securities. U.S. government securities are traded in the over-the-counter market. Options, interest rate futures and options thereon that are traded on exchanges are valued at their last sale price as of the close of such exchanges. Securities for which current market quotations are not readily available and all other assets are taken at fair value as determined in good faith by the Board of Trustees, although the actual calculations may be made by persons acting pursuant to procedures approved by the Board.

Generally, trading in foreign government securities and other fixed-income securities, as well as trading in equity securities in markets outside the United States, is substantially completed each day at various times prior to the

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close of the Exchange. Securities traded on a foreign exchange will be valued at their last sale price (or the last reported bid price, if there is no reported sale during the day), on the exchange on which they principally trade, as of the close of regular trading on such exchange, except for securities traded on the London Stock Exchange ("British Equities"). British Equities will be valued at the mean between the last bid and last asked prices on the London Stock Exchange. The value of other securities principally traded outside the United States will be computed as of the completion of substantial trading for the day on the markets on which such securities principally trade. Securities principally traded outside the United States will generally be valued several hours before the close of regular trading on the Exchange, generally 4:00 p.m. Eastern time, when the Fund computes the net asset value of its Common Shares. Occasionally, events affecting the value of securities principally traded outside the United States may occur between the completion of substantial trading of such securities for the day and the close of the Exchange, which events will not be reflected in the computation of the Fund's net asset value. If, in the determination of the Board of Trustees or persons acting at

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their direction, events materially affecting the value of the Fund's securities occur during such period, then these securities will be valued at their fair value as determined in good faith by or in accordance with procedures approved by the Fund's Trustees. The effect of fair value pricing is that securities may not be priced on the basis of quotations from the primary market in which they are traded, but rather may be priced by another method that the Board of Trustees believes accurately reflects fair value.

DESCRIPTION OF SHARES

Common Shares

The Fund's Declaration authorizes the issuance of an unlimited number of Common Shares, par value \$0.00001 per share. All Common Shares of the Fund have equal rights as to the payment of dividends and the distribution of assets upon liquidation of the Fund. The Common Shares will, when issued, be fully paid and, subject to matters discussed in "Certain Provisions in the Declaration of Trust - Shareholder Liability" below, non-assessable, and will have no pre-emptive or conversion rights or rights to cumulative voting. At any time when the Fund Preferred Shares are outstanding, Common Shareholders will not be entitled to receive any distributions from the Fund unless all accrued dividends on Fund Preferred Shares have been paid, asset coverage (as defined in the 1940 Act) with respect to Fund Preferred Shares and certain forms of indebtedness would be at least 200% and 300%, respectively, after giving effect to such distributions, and other requirements imposed by any rating agencies rating any Fund Preferred Shares issued by the Fund have been met. See "-Fund Preferred Shares" below.

The Common Shares have been approved for listing on the American Stock Exchange under the symbol "RIF." Under the rules of the American Stock Exchange currently applicable to listed companies, the Fund will be required to hold a meeting of shareholders annually.

Shares of closed-end investment companies may frequently trade at prices lower than net asset value. Shares of closed-end investment companies like the Fund that invest primarily in securities of real estate companies have during some periods traded at prices higher than net asset value and during other periods traded at prices lower than net asset value. There can be no assurance that the Common Shares or shares of other similar funds will trade at a price

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higher than net asset value in the future. Net asset value will be reduced immediately following the offering of the Common Shares after payment of the sales load and organizational and offering expenses. Whether investors will realize gains or losses upon the sale of Common Shares will depend entirely upon whether the market price of the Common Shares at the time of sale is above or below the original purchase price for the shares. Since the market price of the Fund's Common Shares will be determined by factors beyond the control of the Fund, the Fund cannot predict whether the Common Shares will trade at, below, or above net asset value or at, below or above the initial public offering price. Accordingly, the Common Shares are designed primarily for long-term investors, and investors in the Common Shares should not view the Fund as a vehicle for trading purposes. See "Repurchase of Shares; Conversion to Open-End Fund."

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Fund Preferred Shares

The Declaration authorizes the issuance of an unlimited number of Fund Preferred Shares. The Fund Preferred Shares may be issued in one or more classes or series, with such par value, preferences, voting powers, terms of redemption, and special rights and privileges as determined by the Board of Trustees of the Fund, by action of the Board of Trustees without the approval of the Common Shareholders.

The Fund's Board of Trustees has indicated its intention to authorize an offering of Fund Preferred Shares (representing approximately 35% of the Fund's capital immediately after the time the Fund Preferred Shares are issued) approximately one to three months after completion of the offering of Common Shares. The offering of the Fund Preferred Shares is subject to several conditions, including general market conditions, the Fund's receipt of the highest credit rating on the Fund Preferred Shares from at least one nationally recognized statistical rating agency (e.g., AAA or Aaa) and the Board's continuing belief that leveraging the Fund's capital structure through the issuance of Fund Preferred Shares is likely to achieve the benefits to the Common Shareholders described in the Prospectus. Although the terms of the Fund Preferred Shares, including their dividend rate, voting rights, liquidation preference and redemption provisions, will be determined by the Board of Trustees (subject to applicable law and the Declaration) if and when it authorizes a Fund Preferred Shares offering, it is likely that the initial series of Fund Preferred Shares would likely pay cumulative dividends at relatively short-term periods, by providing for the periodic (weekly and/or monthly) redetermination of the dividend rate through an auction or similar process. The liquidation preference, preference on distribution, voting rights and redemption provisions of the Fund Preferred Shares are expected to be as stated below.

Limited Issuance of Fund Preferred Shares. Under the 1940 Act, the Fund could issue Fund Preferred Shares with an aggregate liquidation value of up to one-half of the value of the Fund's total assets less all liabilities and indebtedness not representing senior securities (as defined in the 1940 Act) ("Asset Coverage Assets"), measured immediately after issuance of the Fund Preferred Shares. "Liquidation value" means the original purchase price of the shares being liquidated plus any accrued and unpaid dividends. In addition, the Fund would not be permitted to declare any cash dividend or other distribution on its Common Shares unless the liquidation value of the Fund Preferred Shares is no more than one-half of the value of the Fund's Asset Coverage Assets (determined after deducting the amount of such dividend or distribution) immediately after the distribution. It is currently anticipated that the

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liquidation value of the Fund Preferred Shares will be approximately 35% of the value of the Fund's capital, measured immediately after the issuance of the Fund Preferred Shares. The Fund intends to purchase or redeem Fund Preferred Shares, if necessary, to maintain applicable asset coverage requirements.

Distribution Preference. The Fund Preferred Shares have complete priority over the Common Shares as to distribution of assets.

Liquidation Preference. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Fund, holders of Fund Preferred Shares will be entitled to receive a preferential liquidating distribution (expected to equal the original purchase

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price per share plus accumulated and unpaid dividends thereon, whether or not earned or declared) before any distribution of assets is made to Common Shareholders. After payment of the full amount of the liquidating distribution to which they are entitled, holders of Fund Preferred Shares will not be entitled to any further participation in any distribution of assets by the Fund. A consolidation or merger of the Fund with or into any Massachusetts business trust or other entity or a sale of all or substantially all of, or any part of, the assets of the Fund shall not be deemed to be a liquidation, dissolution or winding up of the Fund.

Voting Rights. In connection with any issuance of Fund Preferred Shares, the Fund must comply with Section 18(i) of the 1940 Act, which requires, among other things, that Fund Preferred Shares be voting shares. Except as otherwise provided in the Declaration or the Fund's Bylaws or otherwise required by applicable law, holders of Fund Preferred Shares will vote together with Common Shareholders as a single class.

In connection with the election of the Fund's Trustees, holders of Fund Preferred Shares, voting as a separate class, will also be entitled to elect two of the Fund's Trustees, and the remaining Trustees shall be elected by Common Shareholders and holders of Fund Preferred Shares, voting together as a single class. In addition, if at any time dividends on the Fund's outstanding Fund Preferred Shares shall be unpaid in an amount equal to two full years' dividends thereon, the holders of all outstanding Fund Preferred Shares, voting as a separate class, will be entitled to elect a majority of the Fund's Trustees until all dividends in arrears have been paid or declared and otherwise provided for by the Fund.

The affirmative vote of the holders of a majority (as defined in the 1940 Act) of the outstanding Fund Preferred Shares, voting as a separate class, shall be required to (1) adopt any plan of reorganization that would adversely affect the Fund Preferred Shares, or (2) approve any action requiring a vote of security holders under Section 13(a) of the 1940 Act, including, among other things, the conversion of the Fund from a closed-end to an open-end company or changes in the investment restrictions described as fundamental policies under "Investment Restrictions." The class vote of holders of Fund Preferred Shares described above shall in each case be in addition to any separate vote of the requisite percentage of Common Shares and Fund Preferred Shares necessary to authorize the action in question.

The foregoing voting provisions will not apply with respect to the Fund Preferred Shares if, at or prior to the time when a vote is required, such shares shall have been (1) redeemed or (2) called for redemption and sufficient

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funds shall have been set aside to effect such redemption.

Redemption, Purchase and Sale of Fund Preferred Shares by the Fund. The terms of the Fund Preferred Shares may provide that they are redeemable at certain times, in whole or in part, at the original purchase price per share plus accumulated dividends, that the Fund may tender for or purchase Fund Preferred Shares and that the Fund may subsequently resell any shares so tendered for or purchased. Any redemption or purchase of Fund Preferred Shares by the Fund will reduce the leverage applicable to Common Shares, while any resale of shares by the Fund will increase such leverage.

The discussion above describes the Fund's Board of Trustees' present intention with respect to a possible offering of Fund Preferred Shares. If the Board of Trustees determines to

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authorize such an offering, the terms of the Fund Preferred Shares may be the same as, or different from, the terms described above, subject to applicable law and the Declaration.

CERTAIN PROVISIONS IN THE DECLARATION OF TRUST

Shareholder Liability

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Fund. However, the Fund's Amended and Restated Agreement and Declaration of Trust (the "Declaration") contains an express disclaimer of shareholder liability for acts or obligations of the Fund and requires that notice of such disclaimer be given in each note, bond, contract, instrument, certificate or undertaking made or issued by the Trustees or any officer or officers of the Fund. The Declaration also provides for indemnification by the Fund for all loss and expense of any shareholder or former shareholder held personally liable on account of being or having been a shareholder of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which such disclaimer is inoperative or the Fund is unable to meet its obligations, and thus should be considered remote.

Anti-Takeover Provisions

As described below, the Declaration includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Trustees, and could have the effect of depriving shareholders of opportunities to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund.

The Fund's Trustees are divided into three classes (Class I, Class II and Class III), having initial terms of one, two and three years, respectively. At each annual meeting of shareholders, the term of one class will expire and each Trustee elected to that class will hold office for a term of three years. The classification of the Board of Trustees in this manner could delay for an additional year the replacement of a majority of the Board of Trustees. In addition, subject to any voting powers of Common Shareholders or the holders of

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Fund Preferred Shares, the Declaration provides that a Trustee may be removed only for "cause" (as defined below) and only (i) by action of at least seventy-five percent (75%) of the outstanding shares of the classes or series of shares entitled to vote for the election of such Trustee, at a meeting called for such purpose, or (ii) by a written instrument signed by at least seventy-five percent (75%) of the remaining Trustees specifying the date when such removal shall become effective. "Cause" for these purposes means willful misconduct, dishonesty or fraud on the part of the Trustee in the conduct of his or her office or such Trustee being convicted of a felony.

Except as provided in the next paragraph, the affirmative vote or consent of at least seventy-five percent (75%) of the Board of Trustees and at least seventy-five percent (75%) of the shares of the Fund outstanding and entitled to vote thereon are required to authorize any of the following transactions (each a "Material Transaction"): (1) a merger, consolidation or share exchange of the Fund or any series or class of shares of the Fund with or into any other person or company, or of any such person or company with or into the Fund or any such series or class of shares; (2) the issuance or transfer by the Fund or any series or class of shares (in one or a series

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of transactions in any twelve-month period) of any securities issued by the Fund or such series or class to any other person or entity for cash, securities or other property (or combination thereof) having an aggregate fair market value of \$1,000,000 or more, excluding sales of securities of the Fund or such series or class in connection with a public offering, issuances of securities of the Fund or such series or class pursuant to a dividend reinvestment plan adopted by the Fund, issuances of securities of the Fund or such series or class upon the exercise of any stock subscription rights distributed by the Fund and issuances of securities of the Fund or a series or class to all shareholders of the Fund or such series or class on a pro rata basis; (3) a sale, lease, exchange, mortgage, pledge, transfer or other disposition by the Fund or any series or class of shares (in one or a series of transactions in any twelve-month period) to or with any person of any assets of the Fund or such series or class having an aggregate fair market value of \$1,000,000 or more, except for transactions in securities effected by the Fund or such series or class in the ordinary course of its business or (4) any shareholder proposal as to specific investment decisions made or to be made with respect to the assets of the Fund or a series or class of shares. The same affirmative votes are required with respect to any shareholder proposal as to specific investment decisions made or to be made with respect to the Fund's assets or the assets of any series or class of shares of the Fund.

Notwithstanding the approval requirements specified in the preceding paragraph, the Declaration requires no vote or consent of the Fund's shareholders to authorize a Material Transaction if the transaction is approved by a vote of both a majority of the Board of Trustees and seventy-five percent (75%) of the Continuing Trustees (as defined below), so long as all other conditions and requirements, if any, provided for in the Fund's Bylaws and applicable law (including any shareholder voting rights under the 1940 Act) have been satisfied.

In addition, the Declaration provides that, subject to the voting power of one or more classes of shares as set forth in the Bylaws, the Fund may be terminated at any time by vote or consent of at least seventy-five percent (75%)

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of the Fund's shares entitled to vote or, alternatively, by vote or consent of both a majority of the Board of Trustees and seventy-five percent (75%) of the Continuing Trustees (as defined below). A vote of both a majority of the Board of Trustees and seventy-five percent (75%) of the Continuing Trustees (as defined below) is required for distributions to the Fund's shareholders (in one or a series of distributions) during any twelve-month period of any property (in cash, shares or otherwise) with an aggregate fair market value in excess of 125% of the income and gains (accrued or realized) of the Fund during such twelve-month period.

In certain circumstances, the Declaration also imposes shareholder voting requirements that are more demanding than those required under the 1940 Act in order to authorize a conversion of the Fund from a closed-end to an open-end investment company. See "Possible Conversion to Open-End Status" and "Certain Provisions in the Declaration of Trust" in the Prospectus.

The Trustees may from time to time grant other voting rights to shareholders with respect to these and other matters as the Trustees may consider necessary or desirable.

As noted, the voting provisions described above could have the effect of depriving Common Shareholders of an opportunity to sell their Common Shares at a premium over

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prevailing market prices by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. In the view of the Fund's Board of Trustees, however, these provisions offer several possible advantages, including: (1) requiring persons seeking control of the Fund to negotiate with its management regarding the price to be paid for the amount of Common Shares required to obtain control; (2) promoting continuity and stability; and (3) enhancing the Fund's ability to pursue long-term strategies that are consistent with its investment objectives and management policies. The Board of Trustees has determined that the voting requirements described above, which are generally greater than the minimum requirements under the 1940 Act, are in the best interests of the Fund's Common Shareholders generally.

A "Continuing Trustee," as used in the discussion above, is any member of the Fund's Board of Trustees who either (i) has been a member of the Board for a period of at least thirty-six months (or since immediately after the initial registered public offering of the Fund's Common Shares, if less than thirty-six months) or (ii) was nominated to serve as a member of the Board of Trustees by a majority of the Continuing Trustees then members of the Board.

The foregoing is intended only as a summary and is qualified in its entirety by reference to the full text of the Declaration and the Fund's Bylaws, both of which have been filed as exhibits to the Fund's registration statement on file with the SEC.

Liability of Trustees

The Declaration provides that the obligations of the Fund are not binding upon the Trustees of the Fund individually, but only upon the assets and property of the Fund, and that the Trustees shall not be liable for errors of judgment or mistakes of fact or law. Nothing in the Declaration, however, protects a Trustee against any liability to which he or she would otherwise be

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subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

REPURCHASE OF SHARES; CONVERSION TO OPEN-END FUND

The Fund is a closed-end investment company and as such its shareholders will not have the right to cause the Fund to redeem their shares. Instead, the Fund's shares will trade in the open market at a price that will be a function of several factors, including dividend levels (which are in turn affected by expenses), net asset value, call protection, price, dividend stability, relative demand for and supply of such shares in the market, general market and economic conditions and other factors beyond the control of the Fund. Shares of closed-end investment companies frequently trade at prices lower than net asset value. They sometimes also trade at a premium to net asset value. The Fund's Board of Trustees regularly monitors the relationship between the market price and net asset value of the Common Shares. If the Common Shares were to trade at a substantial discount to net asset value for an extended period of time, the Fund's Board may consider action that might be taken to reduce or eliminate any material discount from net asset value in respect of shares, which may include the repurchase of such shares in the open market or in private transactions, the making of a tender offer for such shares at net asset value, the conversion of the Fund to an open-end investment company, or other programs intended to reduce the discount. The Board of Trustees currently considers the

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following factors to be relevant to a consideration of any of the actions noted above: the extent and duration of the discount, the liquidity of the Fund's portfolio, the impact of any action on the Fund or its shareholders and general market considerations. The Board of Trustees may decide not to take any of these actions. The Fund has no present intention to repurchase its Common Shares and generally would do so only in the circumstances described in this section.

Notwithstanding the foregoing, at any time when Fund Preferred Shares are outstanding, the Fund may not purchase, redeem or otherwise acquire any of its Common Shares unless (1) all accrued dividends on Fund Preferred Shares have been paid and (2) at the time of such purchase, redemption or acquisition, the net asset value of the Fund's portfolio (determined after deducting the acquisition price of the Common Shares) is at least 200% of the liquidation value of the outstanding Fund Preferred Shares (expected to equal the original purchase price per share plus any accrued and unpaid dividends thereon).

Subject to its investment limitations, the Fund may borrow or use the accumulation of cash to finance repurchase of shares or to make a tender offer. Interest on any borrowings to finance share repurchase transactions or the accumulation of cash by the Fund in anticipation of share repurchases or tenders will reduce the Fund's income. Any share repurchase, tender offer or borrowing that might be approved by the Board of Trustees would have to comply with the Securities Exchange Act of 1934, as amended, and the 1940 Act and the rules and regulations under each of those Acts.

The Fund's Board of Trustees may also from time to time consider submitting to the holders of the shares of beneficial interest of the Fund a proposal to convert the Fund to an open-end investment company. In determining whether to exercise its sole discretion to submit this issue to shareholders, the Board of Trustees would consider all factors then relevant, including the relationship of the market price of the Common Shares to net asset value, the extent to which

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the Fund's capital structure is leveraged and the possibility of re-leveraging, the spread, if any, between the yields on securities in the Fund's portfolio and interest and dividend charges on Fund Preferred Shares or other forms of leverage and general market and economic conditions.

The Declaration requires the affirmative vote or consent of holders of at least seventy-five percent (75%) of each class of the Fund's shares entitled to vote on the matter to authorize a conversion of the Fund from a closed-end to an open-end investment company, unless the conversion is authorized by both a majority of the Board of Trustees and seventy-five percent (75%) of the Continuing Trustees (as defined above under "Certain Provisions in the Declaration of Trust--Anti-Takeover Provisions"). This seventy-five percent (75%) shareholder approval requirement is higher than is required under the 1940 Act. In the event that a conversion is approved by the Trustees and the Continuing Trustees as described above, the minimum shareholder vote required under the 1940 Act would be necessary to authorize the conversion. Currently, the 1940 Act would require approval of the holders of a "majority of the outstanding" Common Shares and, if issued, Fund Preferred Shares, voting together as a single class, and the holders of a "majority of the outstanding" Fund Preferred Shares voting as a separate class, in order to authorize a conversion.

The Fund anticipates that it would not charge any sales or redemption fees upon conversion to an open-end fund. The Fund also currently anticipates that after any such conversion, shareholder redemptions would generally be made in cash. However, if the Fund were to meet shareholder redemptions "in kind" through the distributions of securities, shareholders would bear the risks of holding such securities directly and would bear any brokerage costs or other transactional expenses in connection with the sale of such securities.

If the Fund converted to an open-end company, it would be required to redeem all Preferred Shares then outstanding (requiring in turn that it liquidate a portion of its investment

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portfolio), and the Fund's Common Shares likely would no longer be listed on the American Stock Exchange. Shareholders of an open-end investment company may require the company to redeem their shares on any business day (except in certain circumstances as authorized by or under the 1940 Act) at their net asset value, less such redemption charge, if any, as might be in effect at the time of redemption. In order to avoid maintaining large cash positions or liquidating favorable investments to meet redemptions, open-end companies typically engage in a continuous offering of their shares. Open-end companies are thus subject to periodic asset in-flows and out-flows that can complicate portfolio management.

The repurchase by the Fund of its shares at prices below net asset value will result in an increase in the net asset value of those shares that remain outstanding. However, there can be no assurance that share repurchases or tenders at or below net asset value will result in the Fund's shares trading at a price equal to their net asset value. Nevertheless, the fact that the shares may be the subject of repurchase or tender offers at net asset value from time to time, or that the Fund may be converted to an open-end investment company, may reduce any spread between market price and net asset value that might otherwise exist.

In addition, a purchase by the Fund of its Common Shares will decrease the Fund's total assets, which would likely have the effect of increasing the Fund's

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expense ratio. Any purchase by the Fund of its Common Shares at a time when Fund Preferred Shares are outstanding will increase the leverage applicable to the outstanding Common Shares then remaining.

Before deciding whether to take any action if the Fund's Common Shares trade below net asset value, the Board of Trustees would consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund's portfolio, the impact (including the expense) of any action that might be taken on the Fund or its shareholders and market considerations. Based on these considerations, even if the Fund's shares should trade at a discount, the Board of Trustees may determine that, in the interest of the Fund and its shareholders, no action should be taken.

TAXATION

Set forth below is a discussion of certain U.S. federal income tax issues concerning the Fund and the purchase, ownership and disposition of Fund shares. This discussion does not purport to be complete or to deal with all aspects of federal income taxation that may be relevant to shareholders in light of their particular circumstances. This discussion is based upon present provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the regulations promulgated thereunder, and judicial and administrative ruling authorities, all of which are subject to change, which change may be retroactive. Prospective investors should consult their own tax advisers with regard to the federal tax consequences of the purchase, ownership, or disposition of Fund shares, as well as the tax consequences arising under the laws of any state, foreign country, or other taxing jurisdiction.

Taxation of the Fund

The Fund intends to elect to be treated as, and to qualify annually as, a regulated investment company under Subchapter M of the Code.

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To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, the Fund must, among other things, (a) derive in each taxable year at least 90% of its gross income from dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of stock, securities or foreign currencies or other income derived with respect to its business of investing in such stock, securities or currencies; (b) diversify its holdings so that, at end of each quarter of the taxable year, (i) at least 50% of the market value of the Fund's assets is represented by cash and cash items (including receivables), U.S. Government securities, the securities of other regulated investment companies and other securities, with such other securities of any one issuer limited for the purposes of this calculation to an amount not greater than 5% of the value of the Fund's total assets and not greater than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its total assets is invested in the securities (other than U.S. Government securities or the securities of other regulated investment companies) of a single issuer, or two or more issuers which the Fund controls and are engaged in the same, similar or related trades or businesses; and (c) distribute at least 90% of the sum of its investment company taxable income (as that term is defined in the Code, but without regard to the deduction for dividends paid) and net tax-exempt interest each taxable year.

As a regulated investment company that is accorded special tax treatment,

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the Fund generally will not be subject to U.S. federal income tax on its investment company taxable income (which includes, among other items, dividends, interest and net short-term capital gain in excess of net long-term capital loss) and net capital gain (the excess of net long-term capital gain over net short-term capital loss), if any, that it distributes to shareholders. The Fund intends to distribute to its shareholders, at least annually, all or substantially all of its investment company taxable income and net capital gain. However, if the Fund retains any net capital gain or any investment company taxable income, it will be subject to tax at regular corporate rates on the amount retained. If the Fund retains any net capital gain, it may designate the retained amount as undistributed capital gains in a notice to its shareholders who, if subject to federal income tax on long-term capital gains, (i) will be required to include in income for federal income tax purposes, as long-term capital gain, their share of such undistributed amount, and (ii) will be entitled to credit their proportionate shares of the tax paid by the Fund on such undistributed amount against their federal income tax liabilities, if any, and to claim refunds to the extent the credit exceeds such liabilities. For federal income tax purposes the tax basis of shares owned by a shareholder of the Fund will be increased by an amount equal under current law to the difference between the amount of undistributed capital gains included in the shareholder's gross income and the tax deemed paid by the shareholder under clause (ii) of the preceding sentence.

If the Fund fails to distribute in a calendar year an amount equal to the sum of (1) at least 98% of its ordinary income (not taking into account any capital gains or losses) for the calendar year, (2) at least 98% of its capital gains in excess of its capital losses (adjusted for certain ordinary losses) for the one-year period ending on October 31 of the calendar year, and (3) any ordinary income and capital gains for previous years that was not distributed during those years, the Fund will be subject to a 4% excise tax on the undistributed amount. A distribution will be treated as paid on December 31 of the current calendar year if it is declared by the Fund in October, November or December with a record date in such a month and paid by the Fund during January of the following calendar year. Such distributions will be taxable to shareholders in the calendar year in which the distributions are declared, rather than the calendar year in which the

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distributions are received. To prevent application of the excise tax, the Fund intends to make its distributions in accordance with the calendar year distribution requirement.

If the Fund failed to qualify as a regulated investment company or failed to satisfy the 90% distribution requirement in any taxable year, the Fund would be subject to tax on its taxable income at corporate rates (even if such income were distributed to its shareholders), and all distributions out of earnings and profits (including distributions of net capital gain) would be taxed to shareholders as ordinary income. In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying as a regulated investment company that is accorded special tax treatment.

Distributions

Dividends paid out of the Fund's current and accumulated earnings and profits will, except in the case of capital gain dividends described below, be

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taxable to a U.S. shareholder as ordinary income to the extent of the Fund's earnings and profits, whether paid in cash or reinvested in additional shares. Although such dividends generally will not qualify for the dividends received deduction available to corporations under Section 243 of the Code, if a portion of the Fund's income consists of qualifying dividends paid by U.S. corporations (other than REITs), a portion of the dividends paid by the Fund to corporate shareholders may be eligible for the corporate dividends received deduction. Distributions of net capital gain (the excess of net long-term capital gain over net short-term capital loss), if any, properly designated as capital gain dividends are taxable to a shareholder as long-term capital gains, regardless of how long the shareholder has held Fund shares. A distribution of an amount in excess of the Fund's current and accumulated earnings and profits will be treated by a shareholder as a return of capital which is applied against and reduces the shareholder's basis in his or her shares. A return of capital is not taxable, but it reduces a shareholder's tax basis in his or her shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition by the shareholder of his or her shares. To the extent that the amount of any such distribution exceeds the shareholder's basis in his or her shares, the excess will be treated by the shareholder as gain from a sale or exchange of the shares.

Dividends and distribution on the Fund's shares are generally subject to federal income tax as described herein to the extent they do not exceed the Fund's realized income and gains, even though such dividends and distributions may economically represent a return of a particular shareholder's investment. Such distributions are likely to occur in respect of shares purchased at a time when the Fund's net asset value reflects gains that are either unrealized, or realized but not distributed. Such realized gains may be required to be distributed even when the Fund's net asset value also reflects unrealized losses. Distributions are taxable to a shareholder even if they are paid from income or gains earned by the Fund prior to the shareholder's investment (and thus included in the price paid by the shareholders).

The Internal Revenue Service ("IRS") currently requires that a regulated investment company that has two or more classes of stock allocate to each such class proportionate amounts of each type of its income (such as ordinary income and capital gains) based upon the percentage of total dividends paid out of earnings or profits to each class for the tax year. Accordingly, the Fund intends each year to allocate capital gain dividends between its Common Shares and Fund

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Preferred Shares in proportion to the total dividends paid out of earnings or profits to each class with respect to such tax year. Dividends qualifying and not qualifying for the dividends received deduction will similarly be allocated between and among these classes.

Distributions will be treated in the manner described above regardless of whether such distributions are paid in cash or in additional shares of the Fund. A shareholder whose distributions are reinvested in shares will be treated as having received a dividend equal to the fair market value of the new shares issued to the shareholder or the amount of cash allocated to the shareholder for the purchase of shares on its behalf.

Shareholders will be notified annually as to the U.S. federal tax status of distributions.

Sale Or Exchange Of Fund Shares

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Upon the sale, exchange or redemption of shares of the Fund which a shareholder holds as a capital asset, such shareholder may realize a capital gain or loss which will be long-term or short-term, depending upon the shareholder's holding period for the shares. Generally, a shareholder's gain or loss will be a long-term gain or loss if the shares have been held for more than one year.

However, all or a portion of any loss realized upon a taxable disposition of Fund shares will be disallowed to the extent the shares disposed of are replaced (including through reinvestment of dividends) within a period of 61 days beginning 30 days before and ending 30 days after the disposition. In such a case, the basis of the newly purchased shares acquired will be adjusted to reflect the disallowed loss. Any loss realized by a shareholder on a taxable disposition of Fund shares held by the shareholder for six months or less will be treated as a long-term capital loss to the extent of any distributions of net capital gain received by the shareholder (or amounts credited as undistributed capital gains) with respect to such shares.

From time to time, the Fund may make a tender offer for its Common Shares. It is expected that the terms of any such offer will require a tendering shareholder to tender all Common Shares and dispose of all Fund Preferred Shares held, or considered under certain attribution rules of the Code to be held, by such shareholder. Shareholders who tender all Common Shares and dispose of all Fund Preferred Shares held, or considered to be held, by them will be treated as having sold their shares and generally will realize a capital gain or loss. If a shareholder tenders fewer than all of its Common Shares, or retains a substantial portion of its Fund Preferred Shares, such shareholder may be treated as having received a taxable dividend upon the tender of its Common Shares. In such a case there is a risk that non-tendering shareholders will be treated as having received taxable distributions from the Fund. Likewise, if the Fund redeems some but not all of the Fund Preferred Shares held by a holder of Fund Preferred Shares (a "Preferred Shareholder") and such shareholder is treated as having received a taxable dividend upon such redemption, there is a risk that Common Shareholders and non-redeeming Preferred Shareholders will be treated as having received taxable distributions from the Fund. To the extent that the Fund recognizes net gains on the liquidation of portfolio securities to meet such tenders of Common Shares, the Fund will be required to make additional distributions to its Common Shareholders.

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Nature Of Fund's Investments

Certain of the Fund's investment practices are subject to special and complex federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (ii) convert lower taxed long-term capital gain into higher taxed short-term capital gain or ordinary income, (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (iv) cause the Fund to recognize income or gain without a corresponding receipt of cash, (v) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur and (vi) adversely alter the characterization of certain complex financial transactions. The Fund will monitor its transactions and may make certain tax elections in order to mitigate the effect of these provisions.

Original Issue Discount Securities and Payment-in-Kind Securities

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The Fund may acquire debt obligations that are treated as issued originally at a discount or having acquisition discount. Current federal tax law requires a regulated investment company that holds a U.S. Treasury or other fixed income zero-coupon security to accrue as income each year a portion of the discount at which the security was issued, even though the holder receives no interest payment in cash on the security during the year. In addition, payment-in-kind securities will give rise to income which is required to be distributed and is taxable even though the Fund holding the security receives no interest payment in cash on the security during the year. Generally, the amount of the discount is treated as interest income and is included in income over the term of the debt security, even though payment of that amount is not received until a later time, usually when the debt security matures. A portion of the original issue discount includable in income with respect to certain high-yield corporate debt obligations (including certain payment-in-kind securities) may be treated as a dividend for certain U.S. federal income tax purposes. With respect to certain short-term debt obligations, the Fund may make one or more elections which could affect the character and timing of recognition of income.

Some of the debt obligations (with a fixed maturity date of more than one year from the date of issuance) that may be acquired by the Fund in the secondary market may be treated as having market discount. Generally, any gain recognized on the disposition of, and any partial payment of principal on, a debt security having market discount is treated as ordinary income to the extent the gain, or principal payment, does not exceed the "accrued market discount" on such debt security. Market discount generally accrues in equal daily installments. The Fund may make one or more of the elections applicable to debt obligations having market discount, which could affect the character and timing of recognition of income.

If the Fund holds the foregoing kinds of securities, it may be required to pay out as an income distribution each year an amount which is greater than the total amount of cash interest the Fund actually received. Such distributions may be made from the cash assets of the Fund or by liquidation of portfolio securities, if necessary. The Fund may realize gains or losses from such liquidations. In the event the Fund realizes net capital gains from such transactions, its shareholders may receive a larger capital gain distribution than they would in the absence of such transactions.

Investment In Real Estate Investment Trusts

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If the Fund invests in REITs that hold residual interests in real estate mortgage investment conduits ("REMICs"), a portion of the Fund's income from a REIT that is attributable to the REIT's residual interest in a REMIC (referred to in the Code as an "excess inclusion") will be subject to federal income tax in all events. Excess inclusion income of a regulated investment company, such as the Fund, will be allocated to shareholders of the regulated investment company in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related REMIC residual interest directly. In general, excess inclusion income allocated to shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (ii) will constitute unrelated business taxable

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income to entities (including a qualified pension plan, an individual retirement account, a 401(k) plan, a Keogh plan or other tax-exempt entity) subject to tax on unrelated business income, thereby potentially requiring such an entity that is allocated excess inclusion income, and otherwise might not be required to file a tax return, to file a tax return and pay tax on such income, and (iii) in the case of a foreign shareholder, will not qualify for any reduction in U.S. federal withholding tax. In addition, if at any time during any taxable year a "disqualified organization" (as defined in the Code) is a record holder of a share in a regulated investment company, then the regulated investment company will be subject to a tax equal to that portion of its excess inclusion income for the taxable year that is allocable to the disqualified organization, multiplied by the highest federal income tax rate imposed on corporations. The Investment Manager does not intend on behalf of the Fund to invest in REITs, a substantial portion of the assets of which consists of residual interests in REMICs.

Foreign Shareholders

U.S. taxation of a shareholder who, as to the United States, is a nonresident alien individual, a foreign trust or estate, a foreign corporation or foreign partnership ("foreign shareholder") depends on whether the income of the Fund is "effectively connected" with a U.S. trade or business carried on by the shareholder.

Income Not Effectively Connected. If the income from the Fund is not "effectively connected" with a U.S. trade or business carried on by the foreign shareholder, distributions of investment company taxable income will be subject to a U.S. tax of 30% (or lower treaty rate, except in the case of any excess inclusion income allocated to the shareholder (see "Taxation--Investment in Real Estate Investment Trusts" above)), which tax is generally withheld from such distributions.

Capital gain dividends and any amounts retained by the Fund which are designated as undistributed capital gains will not be subject to U.S. tax at the rate of 30% (or lower treaty rate) unless the foreign shareholder is a nonresident alien individual and is physically present in the United States for more than 182 days during the taxable year and meets certain other requirements. However, this 30% tax on capital gains of nonresident alien individuals who are physically present in the United States for more than the 182 day period only applies in exceptional cases because any individual present in the United States for more than 182 days during the taxable year is generally treated as a resident for U.S. income tax purposes; in that case, he or she would be subject to U.S. income tax on his or her worldwide income at the graduated rates applicable to U.S. citizens, rather than the 30% U.S. tax. In the case of a foreign shareholder who is a nonresident alien individual, the Fund may be required to withhold U.S.

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income tax on distributions of net capital gain unless the foreign shareholder certifies his or her non-U.S. status under penalties of perjury or otherwise establishes an exemption. See "Taxation-Backup Withholding," below. Any gain that a foreign shareholder realizes upon the sale or exchange of such shareholder's shares of the Fund will ordinarily be exempt from U.S. tax unless (i) in the case of a shareholder that is a nonresident alien individual, the gain is U.S. source income and such shareholder is physically present in the United States for more than 182 days during the taxable year and meets certain other requirements, or (ii) at any time during the shorter of the period during

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which the foreign shareholder held shares of the Fund and the five year period ending on the date of the disposition of those shares, the Fund was a "U.S. real property holding corporation" and the foreign shareholder held more than 5% of the shares of the Fund, in which event the gain would be taxed in the same manner as for a U.S. shareholder as discussed above and a 10% U.S. withholding tax would be imposed on the amount realized on the disposition of such shares to be credited against the foreign shareholder's U.S. income tax liability on such disposition. A corporation is a "U.S. real property holding corporation" if the fair market value of its U.S. real property interests equals or exceeds 50% of the fair market value of such interests plus its interests in real property located outside the United States plus any other assets used or held for use in a business. In the case of the Fund, "U.S. real property interests" include interests in stock in U.S. real property holding corporations (other than an interest in stock of a REIT controlled by U.S. persons at all times during the five-year period prior to the disposition and holdings of 5% or less in the stock of publicly traded U.S. real property holding corporations) and certain participating debt securities.

Income Effectively Connected. If the income from the Fund is "effectively connected" with a U.S. trade or business carried on by a foreign shareholder, then distributions of investment company taxable income and capital gain dividends, any amounts retained by the Fund which are designated as undistributed capital gains and any gains realized upon the sale or exchange of shares of the Fund will be subject to U.S. income tax at the graduated rates applicable to U.S. citizens, residents and domestic corporations. Foreign corporate shareholders may also be subject to the branch profits tax imposed by the Code.

The tax consequences to a foreign shareholder entitled to claim the benefits of an applicable tax treaty may differ from those described herein. Foreign shareholders are advised to consult their own tax advisers with respect to the particular tax consequences to them of an investment in the Fund.

Backup Withholding

The Fund generally is required to withhold U.S. federal income tax on all taxable distributions and redemption proceeds payable to any non-corporate shareholder who fails to provide the Fund with a correct taxpayer identification number (TIN) or to make required certifications to the Fund that he or she is not subject to withholding, or who has been notified by the IRS that he or she is subject to backup withholding. Pursuant to tax legislation enacted in 2001, the backup withholding tax rate will be (i) 30% for amounts paid during 2002 and 2003, (ii) 29% for amounts paid during 2004 and 2005, and (iii) 28% for amounts paid during 2006 through 2010. This legislation will expire and the backup withholding rate will be 31% for amounts paid after December 31, 2010, unless Congress enacts tax legislation providing otherwise.

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In order for a foreign shareholder to qualify for exemption from the backup withholding tax rates and for reduced withholding tax rates under income tax treaties, the foreign shareholder must comply with special certification and filing requirements. Foreign shareholders in the Fund should consult their tax advisers in this regard.

Corporate shareholders and certain other shareholders specified in the Code generally are exempt from such backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be credited against the shareholder's U.S. federal income tax liability.

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Other Taxation

Fund shareholders may be subject to state, local and foreign taxes on their Fund distributions. Shareholders are advised to consult their own tax advisers with respect to the particular tax consequences to them of an investment in the Fund.

PERFORMANCE-RELATED AND COMPARATIVE AND OTHER INFORMATION

From time to time, the Fund may quote the Fund's total return, aggregate total return or yield in advertisements or in reports and other communications to shareholders. The Fund's performance will vary depending upon market conditions, the composition of its portfolio and its operating expenses. Consequently, any given performance quotation should not be considered representative of the Fund's performance in the future. In addition, because performance will fluctuate, it may not provide a basis for comparing an investment in the Fund with certain bank deposits or other investments that pay a fixed yield for a stated period of time. Investors comparing the Fund's performance with that of other investment companies should give consideration to the quality and maturity of the respective investment companies' portfolio securities.

From time to time, the Fund and/or the Investment Manager may report to shareholders or to the public in advertisements concerning the performance of the Investment Manager or on the comparative performance or standing of the Investment Manager in relation to other money managers. The Investment Manager also may provide current or prospective private account clients, in connection with standardized performance information for the Fund, performance information for the Fund gross and/or net of fees and expenses for the purpose of assisting such clients in evaluating similar performance information provided by other investment managers or institutions. Comparative information may be compiled or provided by independent ratings services or by news organizations. Any performance information, whether related to the Fund or the Investment Manager, should be considered in light of the Fund's investment objectives and policies, characteristics and quality of the Fund, and the market conditions during the time period indicated, and should not be considered to be representative of what may be achieved in the future. Performance information for the Fund may be compared to various unmanaged indexes.

The Fund may quote certain performance-related information and may compare certain aspects of its portfolio and structure to other substantially similar closed-end funds as categorized by Lipper, Inc. ("Lipper"), Morningstar Inc. or other independent services. Comparison of the Fund to an alternative investment should be made with consideration of differences in features and expected performance. The Fund may obtain data from sources or

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reporting services, such as Bloomberg Financial ("Bloomberg") and Lipper, that the Fund believes to be generally accurate.

Past performance is not indicative of future results. At the time common

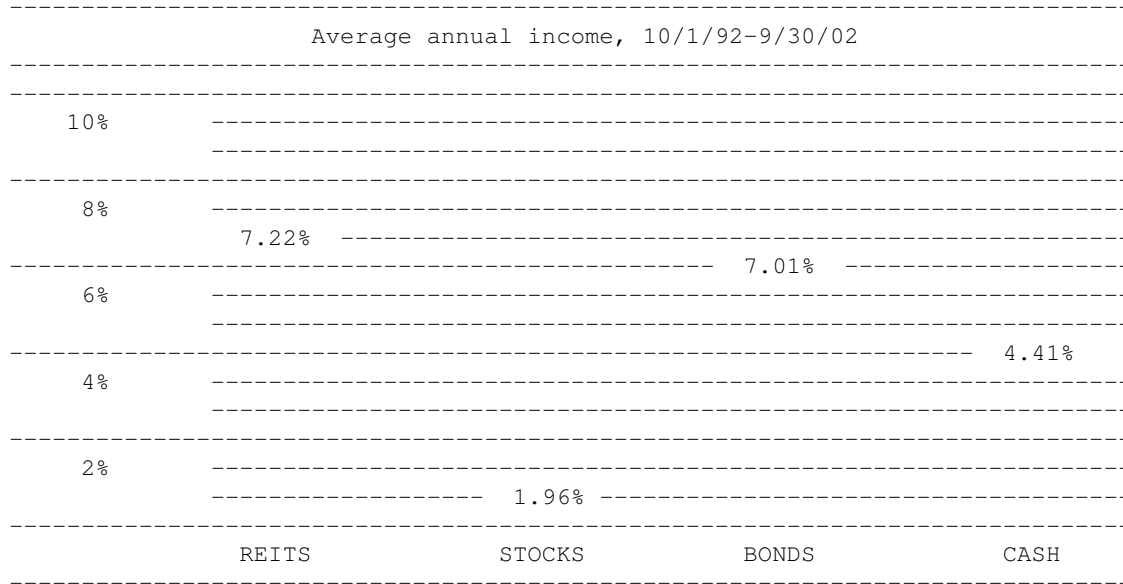
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shareholders sell their shares, they may be worth more or less than their original investment.

Benefits of Investing in Real Estate and REITs

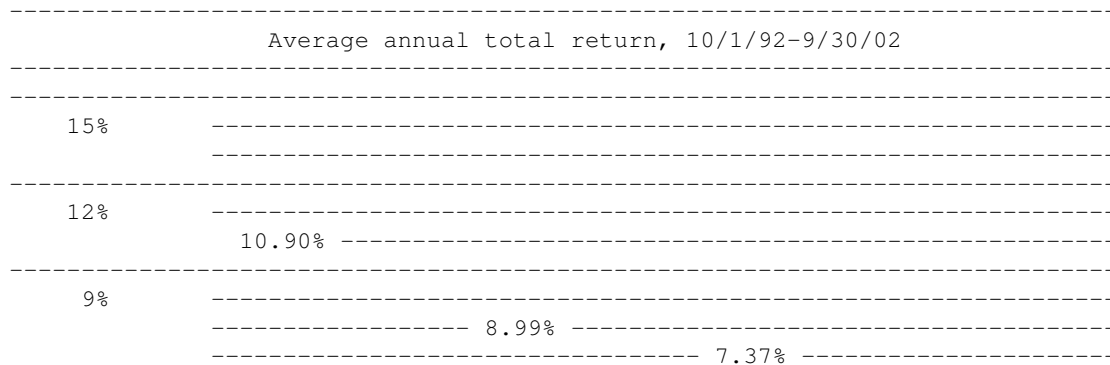
REITs historically have paid higher dividends than other income-producing securities (see Graph A).

Graph A



Dividends from real estate securities have historically outpaced consumer inflation. The enhanced return potential of REITs has historically translated into solid performance relative to other asset classes (see Graph B).

Graph B



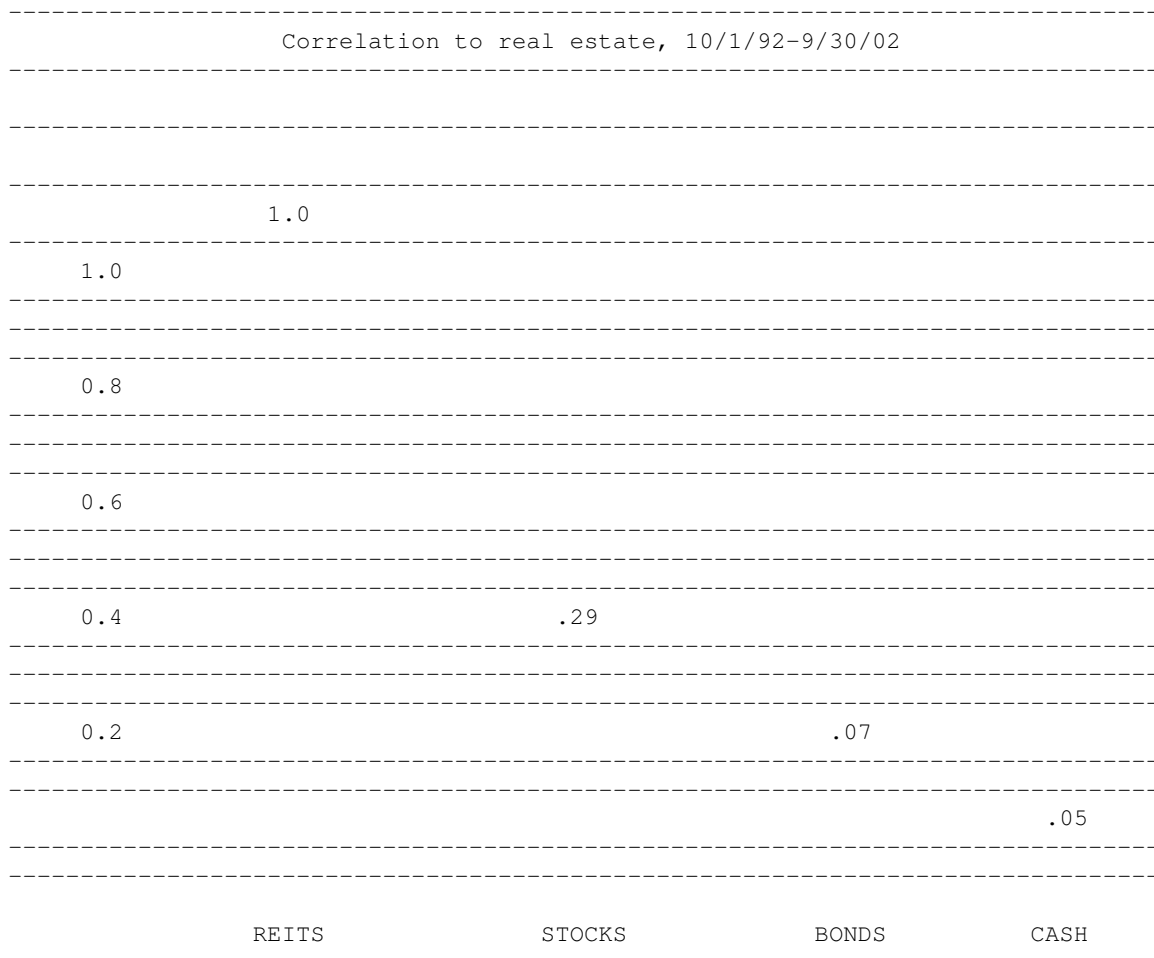
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Real estate securities tend to experience less fluctuation than the stock market. Since many REITs are backed by underlying tangible assets, they may hold their value during inflationary times. Real estate may offer investors a new asset class, an alternative to stocks, bonds and cash, with added diversification benefits and a combination of growth and income potential. Real estate securities historically have demonstrated a low correlation to other investments, i.e., they tend to react differently to various market conditions (see Graph C). In addition, real estate securities have tended to experience less volatility than the broader stock market.

Graph C



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The charts set forth above are presented for illustrative purposes only and do not represent or predict the Fund's return. The Fund may invest in securities other than REITs, and may invest in types of REITs different from those whose returns are depicted in the charts. Investors should keep in mind that several material differences exist between the indexes shown on these pages. REITs are represented by the NAREIT Equity Index, which is composed solely of real estate investment trusts (REITs). REITs must concentrate their holdings in real estate investments. Stocks are represented by the S&P 500 Index, which is composed of the common stocks of 500 publicly traded large companies and is not restricted to any one sector or industry. Bonds are represented by the Lehman Brothers Aggregate Bond Index, which contains investment-grade fixed-rate debt issues with maturities of at least one year. Cash is represented by U.S. Treasury bills, as reported by the United States Department of the Treasury. It is not possible to invest directly in any index. The charts above show information for only one time period. If different time periods were shown, the comparisons might be less favorable.

Fund's Approach to Investing

The Fund has adopted a value-oriented approach to investing in real estate, seeking to identify undervalued or mispriced securities and to detect potential catalysts that could cause the marketplace to revalue the security in the near-term. The Investment Manager generally sells securities it has acquired once it believes that the stock has become overvalued compared to its peers, no further catalysts exist that would cause the stock price to rise in value, the Investment Manager has identified other securities that offer more promising risk-adjusted opportunities, or the stock has reached a price that the Investment Manager deems to be greater than its intrinsic value. The Investment Manager's investment process incorporates in-depth research with hands

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on real estate and capital markets expertise. The Fund will invest across a variety of property types and geographic regions. The Fund is geared towards investors who have a tolerance for risk, are seeking the potential for high current income, combined with the potential for long-term capital appreciation and could benefit from additional portfolio diversification.

The Investment Manager examines investment opportunities from two complementary perspectives. "The Main Street perspective" analyzes what an investor would pay to buy the company's underlying real estate assets, while "The Wall Street perspective" evaluates what an investor would pay to buy the company's securities. The Investment Manager's management system is designed to bring Main Street and Wall Street closer together by applying both traditional real estate valuation measures and financial analytical techniques.

In reports or other communications to shareholders of the Fund or in advertising materials, the Fund may compare its performance with that of (i) other investment companies listed in the rankings prepared by Lipper Analytical Services, Inc., publications such as Barrons, Business Week, Forbes, Fortune, Institutional Investor, Kiplinger's Personal Finance, Money, Morningstar Mutual Fund Values, The New York Times, The Wall Street Journal and USA Today or other industry or financial publications or (ii) the Standard and Poor's Index of 500 Stocks, the Dow Jones Industrial Average, Dow Jones Utility Index, the National Association of Real Estate Investment ("NAREIT") Trusts Equity REIT Index, the Salomon Brothers Broad Investment Grade Bond Index (BIG), Morgan Stanley Capital International Europe Australasia Far East (MSCI EAFE) Index, the NASDAQ

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Composite Index, and other relevant indices and industry publications. The Fund may also compare the historical volatility of its portfolio to the volatility of such indices during the same time periods. (Volatility is a generally accepted barometer of the market risk associated with a portfolio of securities and is generally measured in comparison to the stock market as a whole--the beta--or in absolute terms--the standard deviation.)

Returns are historical and include change in share price and reinvestment of dividends and capital gains. REITs are represented by the NAREIT Equity REIT Index, an unmanaged portfolio representing the Equity REIT market. This is not the Fund's performance and the Fund will not seek to replicate any index. You cannot invest directly in an index. There is no guarantee that Fund performance will equal or exceed Equity REIT Index performance. The Standard and Poor's 500 Composite Index ("S&P 500") is an unmanaged index of 500 large capitalization, publicly traded stocks representing a variety of industries. The NASDAQ Composite Index is a broad based capitalization weighted index of all NASDAQ national market and small-cap stocks. International Index, represented by the MSCI EAFE (Morgan Stanley Capital International Europe Australasia Far East) Index, is a market value-weighted average of the performance of more than 900 securities listed on the stock exchanges of countries in Europe, Australasia and the Far East. Bonds, represented by the Salomon Brothers Broad Investment Grade Bond Index (BIG), is designed to cover the investment grade universe of bonds issued in the United States. The BIG index includes institutionally traded U.S. Treasury, Government-sponsored (U.S. agency and supranational), mortgage and corporate securities, and provides a reliable and fair benchmark for the investment grade bond portfolio manager. The Dow Jones Utilities Average is a price-weighted average of 15 utility companies that are listed on the New York Stock Exchange and are involved in the production of electrical energy. Correlation coefficients are based on monthly return data. Treasury securities are backed by the

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full faith and credit of the U.S. Government, while real estate securities are not. Past performance is no guarantee of future results.

The underwriters propose to initially offer some of the Common Shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the Common Shares to certain dealers at the public offering price less a concession not in excess of \$.45 per share (3.0% of the initial offering price).

COUNSEL AND INDEPENDENT ACCOUNTANTS

Ropes & Gray serves as counsel to the Fund, and is located at One International Place, Boston, Massachusetts 02110. PricewaterhouseCoopers LLP, located at 160 Federal Street, Boston, Massachusetts 02110, has been appointed as independent accountants for the Fund. The statement of assets and liabilities of the Fund as of November 8, 2002 and the statement of operations of the Fund for the one day then ended included in this Statement of Additional Information have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of the firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

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A Registration Statement on Form N-2, including amendments thereto, relating to the shares offered hereby has been filed by the Fund with the SEC, Washington, DC. The Prospectus and this Statement of Additional Information do not contain all the information set forth in the Registration Statement, including any exhibits and schedules thereto. For further information with respect to the Fund and the shares offered hereby, reference is made to the Registration Statement. Statements contained in the Prospectus and this Statement of Additional Information as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. You may also review and copy the Registration Statement by visiting the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 202-942-8090. In addition, copies of the Registration Statement may be obtained, after mailing the appropriate duplicating fee, by writing to the SEC's Public Reference Section, 450 5th Street, N.W., Washington, DC 20549-0102 or by e-mail request at publicinfo@sec.gov.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Trustees and Shareholder of AEW Real Estate Income Fund

In our opinion, the accompanying statement of assets and liabilities and the related statement of operations present fairly, in all material respects, the financial position of AEW Real Estate Income Fund (the "Fund") at November 8, 2002, and the results of its operations for the period indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
November 8, 2002

FINANCIAL STATEMENTS

AEW REAL ESTATE INCOME FUND
STATEMENT OF ASSETS AND LIABILITIES AS OF NOVEMBER 8, 2002

ASSETS

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Cash	\$100,275
Deferred Offering Costs	264,900
Receivable from Advisor	35,100

Total Assets	\$400,275
LIABILITIES	
Accrued Offering Costs	\$264,900
Payable for Organization Expense	35,100

Total Liabilities	\$300,000
Net assets applicable to 7,000 Shares of \$0.00001 par value common shares outstanding	\$100,275
Net asset value per common share outstanding	\$ 14.325

STATEMENT OF OPERATIONS
ONE DAY ENDED NOVEMBER 8, 2002

Income	0
Expenses	
Organization Expense	35,100
Less: Expense Reimbursement	(35,100)

Total Expenses	0
Net Investment Income	0
	=====

NOTES TO FINANCIAL STATEMENTS
November 8, 2002

NOTE 1 - ORGANIZATION

AEW Real Estate Income Fund (the "Fund") was organized as a Massachusetts business trust on September 18, 2002 and is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. On November 8, 2002, AEW Management and Advisors, L.P., (the "Advisor") purchased 7,000 common shares of beneficial interest, par value \$0.00001 per share ("Common Shares") for \$100,275. The Fund has had no operations other than organizational matters and the issuance and sale of 7,000 shares of common stock to the Advisor. The Fund's primary investment objective is high current income. The proceeds of the initial common shares sold in the Fund were invested in cash.

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The Fund is authorized by its Amended and Restated Agreement and Declaration of Trust to issue an unlimited number of common shares and preferred shares of beneficial interest ("Fund Preferred shares"). The Fund Preferred shares may be issued in one or more series, with such par value and rights as determined by the Board of Trustees without the approval of the common Shareholders.

The Advisor has agreed to reimburse all organization expenses (approximately \$35,100) and pay all offering costs (other than sales load) that exceed \$.03 per common share. Such offering costs will be netted against paid-in-capital.

NOTE 2: ACCOUNTING POLICIES

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

Federal Income Taxes

The Fund intends to meet the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute to its shareholders substantially all of its net investment income and any net realized capital gains, at least annually. Accordingly, no provision for federal tax has been made.

NOTE 3: INVESTMENT MANAGEMENT AGREEMENT

AEW Management and Advisors, L.P. will be the Fund's Adviser. The Fund has entered into an Investment Management Agreement with the Adviser, under which the Adviser will provide general investment advisory and administrative services for the Fund. For providing these services, facilities and for bearing the related expenses, the Adviser will receive a fee from the Fund, accrued daily and paid monthly, at an annual rate equal to .80% of the average daily managed assets. Managed asset value is the net asset value of the Common Shares plus the liquidation preference of any Fund Preferred Shares and the principal amount of any borrowings used for leverage.

In addition to the reimbursement and waiver of organization and offering costs discussed in Note 1, the Adviser has contractually agreed with the Fund to waive a portion of its fees in the amount of .25% of average daily managed assets for the first five years of the Fund's operations, .20% of average daily managed assets in year six, .15% of average daily managed assets in year seven, .10% of average daily managed assets in year eight and .05% of average daily managed assets in year nine. The Adviser will not reimburse the Fund for any portion of its fees beyond year nine of the agreement.

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APPENDIX A

RATINGS OF INVESTMENTS

Description of certain ratings assigned by S&P and Moody's:

S&P

LONG-TERM

"AAA"--An obligation rated "AAA" has the highest rating assigned by S&P.

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The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

"AA"--An obligation rated "AA" differs from the highest rated obligations only in small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

"A"--An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

"BBB"--An obligation rated "BBB" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

"BB," "B," "CCC," "CC," and "C"--Obligations rated "BB," "B," "CCC," "CC," and "C" are regarded as having significant speculative characteristics. "BB" indicates the least degree of speculation and "C" the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

"BB"--An obligation rated "BB" is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

"B"--An obligation rated "B" is more vulnerable to nonpayment than obligations rated "BB," but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

"CCC"--An obligation rated "CCC" is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

"CC"--An obligation rated "CC" is currently highly vulnerable to nonpayment.

A-1

"C"--A subordinated debt or preferred stock obligation rated "C" is currently highly vulnerable to nonpayment. The "C" rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on this obligation are being continued. A "C" also will be assigned to a preferred stock issue in arrears on dividends or sinking fund payments, but that is currently paying.

"D"--An obligation rated "D" is in payment default. The "D" rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The "D" rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

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"r"--The symbol "r" is attached to the ratings of instruments with significant noncredit risks. It highlights risks to principal or volatility of expected returns which are not addressed in the credit rating. Examples include: obligations linked or indexed to equities, currencies, or commodities; obligations exposed to severe prepayment risk--such as interest-only or principal-only mortgage securities; and obligations with unusually risky interest terms, such as inverse floaters.

"N.R."--The designation "N.R." indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that S&P does not rate a particular obligation as a matter of policy.

Note: The ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign designation to show relative standing within the major rating categories.

SHORT-TERM

"A-1"--A short-term obligation rated "A-1" is rated in the highest category by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are given a plus sign (+) designation. This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

"A-2"--A short-term obligation rated "A-2" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

"A-3"--A short-term obligation rated "A-3" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

"B"--A short-term obligation rated "B" is regarded as having significant speculative characteristics. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

A-2

"C"--A short-term obligation rated "C" is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.

"D"--A short-term obligation rated "D" is in payment default. The "D" rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The "D" rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

MOODY'S

LONG-TERM

"Aaa"--Bonds rated "Aaa" are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt

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edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

"Aa"--Bonds rated "Aa" are judged to be of high quality by all standards. Together with the "Aaa" group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in "Aaa" securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than the "Aaa" securities.

"A"--Bonds rated "A" possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.

"Baa"--Bonds rated "Baa" are considered as medium-grade obligations (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

"Ba"--Bonds rated "Ba" are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

"B"--Bonds rated "B" generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

A-3

"Caa"--Bonds rated "Caa" are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

"Ca"--Bonds rated "Ca" represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

"C"--Bonds rated "C" are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Note: Moody's applies numerical modifiers 1, 2, and 3 in each generic rating classification from "Aa" through "Caa". The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

PREFERRED STOCK

Because of the fundamental differences between preferred stocks and bonds, Moody's employs a variation of our familiar bond rating symbols in the quality ranking of preferred stock.

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These symbols, presented below, are designed to avoid comparison with bond quality in absolute terms. It should always be borne in mind that preferred stock occupies a junior position to bonds within a particular capital structure and that these securities are rated within the universe of preferred stocks.

"aaa"--An issue rated "aaa" is considered to be a top-quality preferred stock. This rating indicates good asset protection and the least risk of dividend impairment within the universe of preferred stocks.

"aa"--An issue rated "aa" is considered a high-grade preferred stock. This rating indicates that there is a reasonable assurance the earnings and asset protection will remain relatively well maintained in the foreseeable future.

"a"--An issue rated "a" is considered to be an upper-medium-grade preferred stock. While risks are judged to be somewhat greater than in the "aaa" and "aa" classifications, earnings and asset protection are, nevertheless, expected to be maintained at adequate levels.

"baa"--An issue rated "baa" is considered to be a medium-grade preferred stock, neither highly protected nor poorly secured. Earnings and asset protection appear adequate at present, but may be questionable over any great length of time.

"ba"--An issue rated "ba" is considered to have speculative elements. Its future cannot be considered well assured. Earnings and asset protection may be very moderate and not well safeguarded during adverse periods. Uncertainty of position characterizes preferred stocks in this class.

"b"--An issue rated "b" generally lacks the characteristics of a desirable investment. Assurance of dividend payments and maintenance of other terms of the issue over any long period of time may be small.

A-4

"caa"--An issue rated "caa" is likely to be in arrears on dividend payments. This rating designation does not purport to indicate the future status of payments.

"ca"--An issue rated "ca" is speculative in a high degree and is likely to be in arrears on dividends with little likelihood of eventual payments.

"c"--This is the lowest-rated class of preferred or preference stock. Issues so rated can thus be regarded as having extremely poor prospects of ever attaining any real investment standing.

Note: As in the case of bond ratings, Moody's applies to preferred stock ratings the numerical modifiers 1, 2, and 3 in rating classifications "aa" through "b". The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

PRIME RATING SYSTEM (SHORT-TERM)

Issuers rated Prime-1 (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations. Prime-1 repayment ability will often be evidenced by many of the following characteristics:

Leading market positions in well-established industries.

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High rates of return on funds employed.

Conservative capitalization structure with moderate reliance on debt and ample asset protection.

Broad margins in earnings coverage of fixed financial charges and high internal cash generation.

Well-established access to a range of financial markets and assured sources of alternate liquidity.

Issuers rated Prime-2 (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

Issuers rated Prime-3 (or supporting institutions) have an acceptable ability for repayment of senior short-term obligations. The effect of industry characteristics and market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and may require relatively high financial leverage. Adequate alternate liquidity is maintained.

Issuers rated Not Prime do not fall within any of the Prime rating categories.