LMP REAL ESTATE INCOME FUND INC.
Form N-CSR
February 25, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number **811-21098**

LMP Real Estate Income Fund Inc.

(Exact name of registrant as specified in charter)

620 Eighth Avenue, 49th Floor, New York, NY 10018

(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902

(Name and address of agent for service)

Registrant s telephone number, including area code: **(888)777-0102**

Date of fiscal year end: **December 31**

Date of reporting period: **December 31, 2014**

ITEM 1. REPORT TO STOCKHOLDERS.

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

Annual Report

December 31, 2014

LMP

REAL ESTATE INCOME FUND INC. (RIT)

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

What s inside

Fund objectives

The Fund s primary investment objective is high current income and the Fund s secondary investment objective is capital appreciation.

Letter from the chairman

Dear Shareholder,

We are pleased to provide the annual report of LMP Real Estate Income Fund Inc. for the twelve-month reporting period ended December 31, 2014. Please read on for a detailed look at prevailing economic and market conditions during the Fund s reporting period and to learn how those conditions have affected Fund performance.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, www.lmcef.com. Here you can gain immediate access to market and investment information, including:

- Fund prices and performance,
- Market insights and commentaries from our portfolio managers, and
- A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

January 30, 2015

Investment commentary

Economic review

Despite weakness in early 2014, the U.S. economy expanded at a solid pace during the twelve months ended December 31, 2014 (the reporting period). The U.S. Department of Commerce reported that in the first quarter of 2014, U.S. gross domestic product (GDP)[i] contracted 2.1%. This was the first negative GDP report in three years and partially attributed to severe winter weather. Thankfully, this setback was very brief, as second quarter GDP growth was 4.6%. The rebound in GDP growth was driven by several factors, including an acceleration in personal consumption expenditures (PCE), increased private inventory investment and exports, as well as an upturn in state and local government spending. The economy then gained further momentum as third quarter GDP growth was 5.0%, its strongest reading since the third quarter of 2003. This was driven by contributions from PCE, exports, nonresidential fixed investment and government spending. After the reporting period ended, the U.S. Department of Commerce s initial estimate showed that fourth quarter 2014 GDP growth was 2.6%. Moderating growth was due to several factors, including an upturn in imports, a downturn in federal government spending and decelerations in nonresidential fixed investment and in exports.

The U.S. manufacturing sector was another tailwind for the economy. Based on figures for the Institute for Supply Management s Purchasing Managers Index (PMI)[ii], U.S. manufacturing expanded during all twelve months of the reporting period (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). After a reading of 56.5 in December 2013, the PMI fell to 51.3 in January 2014, but generally rose over the next several months, reaching a high of 59.0 in August, its best reading since March 2011. While the PMI dipped to 56.6 in September, it rose back to 59.0 in October. Manufacturing activity then moderated over the last two months of the year and the PMI was 55.5 in December. However, for 2014 as a whole the PMI averaged 55.8, the best annual reading since 2010.

The improving U.S. job market was another factor supporting the overall economy during the reporting period. When the period began, unemployment, as reported by the U.S. Department of Labor, was 6.6%. Unemployment generally declined throughout the reporting period and reached a low of 5.6% in December 2014, the lowest level since June 2008.

The Federal Reserve Board (Fed)[iii] took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As it has since December 2008, the Fed kept the federal funds rate[iv] at a historically low range between zero and 0.25%. The Fed also ended its asset purchase program that was announced in December 2012. At that time, the Fed said it would continue purchasing $40 billion per month of agency mortgage-backed securities (MBS), as well as $45 billion per month of longer-term Treasuries. Following the meeting that concluded on December 18, 2013, the Fed announced that it would begin reducing its monthly asset purchases, saying Beginning in January 2014, the Committee will add to its holdings of agency MBS at a pace of $35 billion per month rather than $40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of $40 billion per month rather than $45 billion

Investment commentary (cont d)

per month. At each of the Fed s next six meetings (January, March, April, June, July and September 2014), it announced further $10 billion tapering of its asset purchases. At its meeting that ended on October 29, 2014, the Fed announced that its asset purchase program had concluded. During its last meeting of the year that concluded on December 17, 2014, the Fed said that Based on its current assessment, the Committee judges that it can be patient to maintain the 0 to 1/4 percent target range for the federal funds rate for a considerable time . Finally, at its meeting that ended on January 28, 2015, after the reporting period ended, the Fed said Based on its current assessment, the Committee judges that it can be patient in beginning to normalize the stance of monetary policy.

As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

January 30, 2015

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results.

i Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.

ii The Institute for Supply Management s PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the U.S. manufacturing sector.

iii The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

iv The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

Fund overview

Q. What is the Fund s investment strategy?

A. The Fund s primary investment objective is high current income with capital appreciation as a secondary investment objective. The Fund has a fundamental policy of concentrating its investments in the U.S. real estate industry and not in any other industry. The Fund primarily invests in income-producing common shares, preferred shares, convertible preferred shares and debt securities issued by real estate companies, including real estate investment trusts (REITs)[i]. Real estate companies are companies that generally derive at least 50% of their revenue from the ownership, construction, financing, management or sale of commercial, industrial and residential real estate, or have at least 50% of their assets invested in such real estate.

Our investment process focuses on finding securities with sustainable, high or growing distributions that are covered by a company s operating cash flows. We also look for securities that are trading at a discount to what we believe is the intrinsic value of the company. We feel this provides the Fund with additional capital appreciation potential, as well as superior defensive characteristics. Sector allocation is largely an outgrowth of our fundamental securities analysis.

Under normal market conditions, the Fund invests at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares (preferred shares that, upon the passage of time or the happening of certain events, automatically convert into common shares) and debt securities issued by real estate companies, including REITs. At least 80% of the Fund s total assets will be invested, under normal market conditions, in income-producing securities issued by REITs.

It is the Fund s intention to invest approximately 60% to 80% of its total assets in common shares issued by real estate companies and 20% to 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 and debt securities in the Fund s portfolio may vary over time based on our assessment of market conditions. Our use of leverage is also based on our current view of the risk/return profile of the market. While we do not expect to change the amount of leverage we use frequently, it will be managed in accordance with market conditions and will not be held static if we believe it makes sense to make an adjustment.

ClearBridge Investments, LLC (ClearBridge) is the subadviser to the Fund. ClearBridge provides day-to-day portfolio management services to the Fund, while the Fund s investment manager, Legg Mason Partners Fund Advisor, LLC (LMPFA), provides management and administrative services to the Fund and supervises the Fund-related activities of ClearBridge. Mark McAllister serves as senior portfolio manager and John Baldi as co-portfolio manager to the Fund.

Q. What were the overall market conditions during the Fund s reporting period?

A. After underperforming in 2013 for the first year since 2008, REITs outperformed the broader U.S. equity market in 2014 as the Fund s benchmark, the MSCI U.S. REIT Index[ii] , closed the year with a total return of 30.38%, roughly 1,700 bps above that of the

Fund overview (cont d)

S&P 500 Index[iii]. Every category in the REIT market posted positive returns for the year, as the manufactured housing group surged nearly 45% and the Self-Storage, Health Care, Hotel, Mall, Apartment and Shopping Center sub-sectors gained between 30% and 40% each. Single-Tenant REITs lagged peers, though still up a respectable 13.6%.

Q. How did we respond to these changing market conditions?

A. As we entered 2014, we expected that interest rates would rise over the course of the year, continuing the general trend established in late May of 2013. While we did not view this expected interest rate rise as necessarily negative for the common shares of equity REITs, we certainly saw it as a negative for REIT preferred stocks as these have a fixed coupon and therefore behave much like bonds, i.e. their share prices fall as interest rates rise. Therefore, we reduced the Fund s holdings of preferred shares and increased its ownership of common stocks during the year.

In addition, as the year progressed we gained increasing confidence in the strength of the U.S. economic recovery and so we decided to increase the economic sensitivity of the Fund s common stock holdings. This led us to increase our holdings of Apartment, Lodging, Life Science and Data Center REITs, primarily using the proceeds from our sales of preferred shares.

Performance review

For the twelve months ended December 31, 2014, LMP Real Estate Income Fund Inc. returned 30.69% based on its NAV[iv] and 32.87% based on its New York Stock Exchange (NYSE) market price per share. The Fund s unmanaged benchmark, the MSCI U.S. REIT Index, returned 30.38% for the same period. The Lipper Real Estate Closed-End Funds Category Average[v] returned 22.14% over the same time frame. Please note that Lipper performance returns are based on each fund s NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling $0.72 per share*. The performance table shows the Fund s twelve-month total return based on its NAV and market price as of December 31, 2014. **Past performance is no guarantee of future results.**

Performance Snapshot as of December 31, 2014

Price Per Share	12-Month Total Return**
$14.35 (NAV)	30.69%
$12.55 (Market Price)	32.87%

All figures represent past performance and are not a guarantee of future results.

**** Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.**

Total return assumes the reinvestment of all distributions at NAV.

Total returns assume the reinvestment of all distributions in additional shares in accordance with the Fund s Dividend Reinvestment Plan.

* For the tax character of distributions paid during the fiscal year ended December 31, 2014, please refer to page 22 of this report.

Q. What were the leading contributors to performance?

A. On an absolute basis the Fund had positive returns in each REIT industry sub-sector, with the greatest contributions to returns coming from the Retail REITs, Office REITs, Health Care REITS and Hotel & Resort REITs sub-sectors. Relative to the benchmark, an underweight within the Industrial REITs sub-sector helped relative performance as the group underperformed the benchmark. Additionally, security selection in the Industrial REITs and Diversified REITs sub-sectors helped relative returns for the period.

In terms of individual Fund holdings, leading contributors to performance for the period included Macerich, Kilroy Realty, Regency Centers, Health Care REIT and Digital Realty Trust.

Q. What were the leading detractors from performance?

A. Relative to the Fund s benchmark, overall security selection and sector allocation had a negative impact on performance for the period. Notably, an underweight in Residential REITs, which outperformed the benchmark, hurt relative performance, along with negative selection effects stemming from the Hotel & Resort and Retail REIT sub-sectors.

In terms of individual Fund holdings, the only detractors from performance for the period included Campus Crest Communities, Dream Office Real Estate Investment Trust, Starwood Waypoint Residential Trust (whose shares we received when it was spun out of Starwood Property Trust) and Washington Prime Group (whose shares we received when it was spun out of Simon Property Group).

Q. Were there any significant changes to the Fund during the reporting period?

A. There were a number of specific changes made to the Fund over the course of the reporting period. Among the largest additions to the Fund s portfolio were DuPont Fabros Technology, UDR, Alexandria Real Estate Equities, LaSalle Hotel Properties and Paramount Group. We also eliminated several Fund holdings over the course of the period, notably preferred shares of Kite Realty Group Trust, Sunstone Hotel Investors, CubeSmart and Apartment Investment & Management, along with Campus Crest common stock.

Looking for additional information?

The Fund is traded under the symbol RIT and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XRITX on most financial websites. *Barron s* and the *Wall Street Journal s* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as www.lmcef.com.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund s current NAV, market price and other information.

Fund overview (cont d)

Thank you for your investment in LMP Real Estate Income Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund s investment goals.

Sincerely,

Mark McAllister

Portfolio Manager

ClearBridge Investments, LLC

John Baldi

Portfolio Manager

ClearBridge Investments, LLC

January 20, 2015

RISKS: *Funds that invest in securities related to the real estate industry are subject to the risks of real estate markets, including fluctuating property values, changes in interest rates and other mortgage-related risks. In addition, investment in funds that concentrate their investments in one sector or industry may involve greater risk than more broadly diversified funds. Leverage may result in greater volatility of NAV and the market price of common shares and increases a shareholder s risk of loss. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.*

Portfolio holdings and breakdowns are as of December 31, 2014 and are subject to change and may not be representative of the portfolio managers current or future investments. The Fund s top ten holdings (as a percentage of net assets) as of December 31, 2014 were: Macerich Co. (5.0%), Kilroy Realty Corp. (4.4%), Starwood Property Trust Inc. (4.3%), EPR Properties (4.2%), Liberty Property Trust (4.0%), Simon Property Group Inc. (3.5%), Regency Centers Corp. (3.4%), Inland Real Estate Corp. (3.2%), Hospitality Properties Trust (3.1%), HCP Inc. (3.1%) . Please refer to pages 7 through 9 for a list and percentage breakdown of the Fund s holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. The Fund s top five sector holdings (as a percentage of net assets) as of December 31, 2014 were: Shopping Centers (20.7%), Diversified (20.6%), Office (16.0%), Regional Malls (15.7%) and Health Care (12.6%). The Fund s portfolio composition is subject to change at any time.

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

[i] Real estate investment trusts (REITs) invest in real estate or loans secured by real estate and issue shares in such investments, which can be illiquid.

[ii] The MSCI U.S. REIT Index is a free float-adjusted market capitalization weighted index that is comprised of equity Real Estate Investment Trusts (REITs) that are included in the MSCI U.S. Investable Market 2500 Index, with the exception of specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The Index represents approximately 85% of the U.S. REIT universe.

[iii] The S&P 500 Index is an unmanaged index of 500 stocks and is generally representative of the performance of larger companies in the U.S.

[iv] Net asset value (NAV) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund s market price as determined by supply of and demand for the Fund s shares.

[v] Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended December 31, 2014, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 15 funds in the Fund s Lipper category.

Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the composition of the Fund s investments as of December 31, 2014 and December 31, 2013. The Fund is actively managed. As a result, the composition of the Fund s investments is subject to change at any time.

Schedule of investments

December 31, 2014

LMP Real Estate Income Fund Inc.

Security	Shares	Value
Real Estate Investment Trust Common Stocks 94.2%		
Apartments 8.1%		
Apartment Investment and Management Co., Class A Shares	102,900	$ 3,822,735 [(a)]
AvalonBay Communities Inc.	24,200	3,954,038 [(a)]
Equity Residential	39,900	2,866,416
UDR Inc.	87,600	2,699,832
Total Apartments		*13,343,021*
Diversified 15.4%		
Digital Realty Trust Inc.	74,200	4,919,460 [(a)]
Dream Office Real Estate Investment Trust	125,000	2,705,930
DuPont Fabros Technology Inc.	88,600	2,945,064
EPR Properties	120,000	6,915,600 [(a)]
Lexington Corporate Properties Trust	105,100	1,153,998
Liberty Property Trust	176,000	6,622,880 [(a)]
Total Diversified		*25,262,932*
Health Care 12.6%		
HCP Inc.	116,390	5,124,652 [(a)]
Health Care REIT Inc.	63,800	4,827,746 [(a)]
Healthcare Trust of America Inc., Class A Shares	85,050	2,291,247
OMEGA Healthcare Investors Inc.	108,000	4,219,560 [(a)]
Senior Housing Properties Trust	190,000	4,200,900 [(a)]
Total Health Care		*20,664,105*
Industrial 2.0%		
DCT Industrial Trust Inc.	90,590	*3,230,439*
Lodging/Resorts 5.5%		
Hersha Hospitality Trust	231,800	1,629,554
Hospitality Properties Trust	166,000	5,146,000 [(a)]
LaSalle Hotel Properties	55,100	2,229,897
Total Lodging/Resorts		*9,005,451*
Mortgage 7.4%		
American Capital Agency Corp.	115,310	2,517,217 [(a)]
Annaly Capital Management Inc.	224,700	2,429,007 [(a)]
Starwood Property Trust Inc.	307,100	7,137,004 [(a)]
Total Mortgage		*12,083,228*
Office 13.5%		
Alexandria Real Estate Equities Inc.	28,300	2,511,342
BioMed Realty Trust Inc.	209,700	4,516,938 [(a)]
First Potomac Realty Trust	163,619	2,022,331
Highwoods Properties Inc.		