

Principal Real Estate Income Fund
Form N-CSR
January 08, 2018

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: 811-22742

PRINCIPAL REAL ESTATE INCOME FUND

(exact name of registrant as specified in charter)

1290 Broadway, Suite 1100, Denver, Colorado 80203

(Address of principal executive offices) (Zip code)

Andrea E. Kuchli

Principal Real Estate Income Fund

1290 Broadway, Suite 1100

Denver, Colorado 80203

(Name and address of agent for service)

Registrant's telephone number, including area code: 303-623-2577

Date of fiscal year end: October 31

Date of reporting period: 11/1/2016 – 10/31/2017

Item 1.

Reports to Shareholders.

Section 19(b) disclosure

October 31, 2017 (Unaudited)

The Principal Real Estate Income Fund (the “Fund”), acting pursuant to a Securities and Exchange Commission (“SEC”) exemptive order and with the approval of the Fund’s Board of Trustees (the “Board”), have adopted a plan, consistent with the Fund’s investment objectives and policies, to support a level monthly distribution of income, capital gains and/or return of capital (the “Plan”). In accordance with the Plan, the Fund currently distributes \$0.11 per share on a monthly basis.

The fixed amount distributed per share is subject to change at the discretion of the Fund’s Board. Under the Plan, the Fund will distribute all available investment income to its shareholders, consistent with the Fund’s primary investment objectives and as required by the Internal Revenue Code of 1986, as amended (the “Code”). If sufficient investment income is not available on a monthly basis, the Fund will distribute long-term capital gains and/or return of capital to shareholders in order to maintain a level distribution. Each monthly distribution to shareholders is expected to be at the fixed amount established by the Board, except for extraordinary distributions and potential distribution rate increases or decreases to enable the Fund to comply with the distribution requirements imposed by the Code.

Shareholders should not draw any conclusions about the Fund’s investment performance from the amount of these distributions or from the terms of the Plan. The Fund’s total return performance on net asset value is presented in its financial highlights table.

The Board may amend, suspend or terminate the Fund’s Plan at any time without prior notice if it deems such action to be in the best interest of either the Fund or its shareholders. The suspension or termination of the Plan could have the effect of creating a trading discount (if a Fund’s stock is trading at or above net asset value) or widening an existing trading discount. The Fund is subject to risks that could have an adverse impact on its ability to maintain level distributions. Examples of potential risks include, but are not limited to, economic downturns impacting the markets, increased market volatility, companies suspending or decreasing corporate dividend distributions and changes in the Code. Please refer to the Fund’s prospectus for a more complete description of its risks.

Please refer to the Additional Information section in this shareholder report for a cumulative summary of the Section 19(a) notices for the Fund’s current fiscal period. Section 19(a) notices for the Fund, as applicable, are available on the Principal Real Estate Income Fund’s website; www.principalcef.com.

Table of contents

Performance Overview	2
Report of Independent Registered Public Accounting Firm	9
Statement of Investments	10
Statement of Assets and Liabilities	17
Statement of Operations	18
Statements of Changes in Net Assets	19
Statement of Cash Flows	20
Financial Highlights	22
Notes to Financial Statements	24
Dividend Reinvestment Plan	34
Trustees & Officers	36
Additional Information	
Portfolio holdings	42
Proxy voting	42
Section 19(a) notices	42
Unaudited tax information	43
Data privacy policies and procedures	43
Custodian and transfer agent	43
Legal counsel	43
Independent registered public accounting firm	43

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Principal Real Estate Income Fund Performance Overview

October 31, 2017 (Unaudited)

INVESTMENT OBJECTIVE

The Principal Real Estate Income Fund's ("PGZ" or the "Fund") investment objective is to seek to provide high current income, with capital appreciation as a secondary objective, by investing in commercial real estate related securities.

PERFORMANCE OVERVIEW

As of October 31 2017, the Fund was 61.6% allocated to commercial mortgage backed securities ("CMBS") and 20.6% allocated to global real estate securities, primarily real estate investment trusts ("REITs"). For the 12-month period ended October 31, 2017, the Fund delivered a net return, at market price, of 13.37%, assuming dividends are reinvested back into the Fund, based on the closing share price of \$17.09 on October 31, 2017. This compares to the return of the S&P 500® Index, over the same time-period, of 23.63% assuming dividends are reinvested into the index. This also compares to the return of the Barclays U.S. Aggregate Bond Index of 0.90% and the MSCI World Index of 22.77%.

The October 31, 2017 closing market price of \$17.09 represented a -11.91% discount to the Fund's Net Asset Value ("NAV"). This compares to an average -6.72% discount for equity real estate closed-end funds and a -0.32% discount for mortgage-backed securities closed-end funds (source: Bloomberg). These discounts to NAV reflect the volatility that has occurred in the closed-end fund market since June 2013, as expectations for higher interest rates have negatively impacted the attractiveness of the market.

Based on NAV, the Fund returned 12.46%, including dividends, for the 12-month period ended October 31, 2017. At the beginning of this period, interest rates and the demand for risk in the market changed dramatically when Donald Trump was elected President on November 8th. After the initial market shock on the morning of the 9th, we believe investors realized the growth potential for both individuals and corporations of President Trump's campaign promises to repeal the Affordable Care Act, lower taxes and rollback regulations. At the beginning of the period and just after the election, 10-year interest rates increased from a pre-election low of 1.78% to a post-election high of 2.63% on March 13, 2017. Since that time, 10-year rates ranged between 2.00% and 2.40% and ended the period at 2.38%. During this same period, overall market volatility remained historically low with VIX averaging 11.5 after November 8th ranging from 9 to 16.

After a slow first quarter where CMBS issuance was down due to risk retention taking effect at the end of 2016 and demand for yield was softer due to uncertainty on how far interest rates would sell off following the election, both issuance and the demand for yield picked up during the second half of the period. As CMBS issuers found acceptable solutions to risk retention, issuance levels picked up to meet the strong demand for loans from borrowers needing to

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refinance mortgages originated in 2007. 1st quarter private label issuance totaled \$12.6B which was down 48% quarter over quarter and down 27% year over year. This compared to \$22.3B of issuance in the 2nd quarter and \$25.5B in the 3rd quarter shows the strong recovery in the market post risk-retention and during a period of stable interest rates and low market volatility. The demand for yield also came back to the market and remained strong during this period which had a positive impact on CMBS credit spreads driven by the relative value of CMBS compared to alternatives. The result of this renewed demand was a flattening of the credit curve as spreads on A and BBB rated CMBS bonds tightened more than AAA spreads.

2 www.principalcef.com

Principal Real Estate Income Fund Performance Overview

October 31, 2017 (Unaudited)

During this same period, Global REITS as represented by the FTSE EPRA NAREIT Developed Index returned 6.1% lagging broader equities (MSCI World index) which returned 22.8%. We believe Donald Trump's U.S. presidential election victory spurred a rotation away from yield towards cyclicals in anticipation that President Trump would introduce policies to boost growth such as tax reform, deregulation and stronger infrastructure spending. During the first quarter 2017, the Trump trade lost momentum following the lack of traction on President Trump's policy initiatives. Equity investors displayed a willingness to overlook these delays, however, as a result of generally encouraging economic data including better than expected job growth and improved confidence from small businesses and consumers. Markets took comfort from "Goldilocks" like economic conditions that we believe remained suggestive of a moderate Federal Reserve (the "Fed") rate hike trajectory. Strong corporate earnings out of the U.S. and China, resilient macroeconomic data particularly from China and Europe and renewed optimism for U.S. tax reform buoyed markets despite higher odds for another rate hike by year end and rising geopolitical tensions. The Fed also announced its balance sheet normalization plan would begin at a measured pace in October 2017, with negligible impact on markets. U.S. 10-year bond yields rose 56bps in the period as momentum on tax reform continued to build and economic data were generally firmer, a tailwind for the broader equities market. We believe the more dovish ECB tone and Draghi's willingness to extend quantitative easing for longer if need be was also another supportive factor for general equities.

CMBS

The CMBS holdings within the Fund returned approximately 8.17% for the 12 months ended October 31, 2017. The main drivers of returns for the period were the change in the market demand for higher yields and risk following the election, strong credit performance for deals issued post-GFC driven by positive commercial real estate fundamentals and the ability for legacy loans to continue to refinance. Higher interest rates brought a renewed bid for yield and lower volatility brought a renewed bid for credit. Both changes were positive for returns as most of the CMBS portfolio is exposed to lower rated, higher yielding CMBS securities. AAA spreads benefited from the demand for yield and ended the 12-month period 38bps tighter according to Wells Fargo. Lower rated CMBS bonds also benefited from the higher risk tolerance in the market as the credit curve relative to AAA bonds flattened as well. This was especially true for recently issued CMBS bonds rated A or BBB, as the spread relative to AAA bonds tightened 74bps for A rated bonds and 147bps for BBB rated bonds. The strong credit performance of CMBS loans originated since 2011 also helped support the bid for CMBS credit. The delinquency rate on post-crisis loans ended the period at 0.32% which is strong compared to pre-crisis vintages and reflects more conservative underwriting on post-crisis loans and the strong recovery in commercial real estate fundamentals since 2012. A headwind on demand for certain vintages and specific deals during the period was overall exposure to retail and specific exposure to regional malls and properties initially feared impacted by hurricanes Harvey and Irma. For legacy bonds, the refinance rate for loans maturing during the period remained strong with a payoff rate of over 80% driven by continued accommodative interest rates, availability of capital from the first mortgage market and most importantly, the availability of capital from the high yield debt market to help borrowers fill the gap between the 2006-2007 vintage loan amount and the first mortgage being offered from lenders in the 2.0 CMBS market. With respect to interest rates, another positive driver of relative performance was the duration of the CMBS bonds held in the portfolio being shorter than the market during a period where interest rates increased.

Annual Report | October 31, 2017 3

Principal Real Estate Income Fund Performance Overview

October 31, 2017 (Unaudited)

We believe the outlook for CMBS remains positive looking forward to 2018 based on our positive outlook for real estate fundamentals driving property level income growth over the next 1-2 years. In our view, this income growth should be positive for the credit quality of the underlying CMBS loans and should help support growth in property values even if interest rates continue to increase.

GLOBAL REAL ESTATE SECURITIES

The global real estate securities holdings within the Fund returned approximately 13.4% helped by strong economic growth and earnings results.

Europe was the strongest region with double digit returns from German, French, and Spanish property owners. We believe further returns from the United Kingdom were boosted from signs of a slower and softer Brexit. In the United States, performance is boosted by secular growth in data center and towers and strong fundamentals in industrial stocks. The portfolio has significant weight in U.S. apartments and single-family rentals and the returns of these stocks in the period were material contributors to performance. The portfolio's stocks in Singapore performed well driven by the industrial exposure, internalization of Croesus Retail Trust, as well as residential stocks benefitting from the upturn in the residential cycle. Limited supply, lower vacancy, and strong rental growth drove Australian office fundamentals and were material contributors to the performance in this country. Hong Kong developers were boosted by solid reported earnings, dividend increases, and expectations of the government introducing supportive policies to accelerate conversion of their vast farmland holdings, thereby unlocking latent value. We believe the most notable detractor to performance was exposure to retail stocks in the U.S. as the store closing landscape and especially weak sentiment continues to weigh on retail property owners. In addition, healthcare continued to underperform on the weakening outlook for the senior housing and the portfolio's exposure to this group was a drag on performance. Redemptions from monthly dividend paying mutual funds hurt portfolio performance from the Japanese REIT sector. Globally, performance benefitted from the strong industrial property fundamentals evident.

Our proprietary financial model utilized to measure global real estate securities valuation levels indicates securities trade at attractive levels at the end of October 2017. This measure examines the spread between the stocks' forward looking implied unlevered internal rates of returns ("IRR's") to global treasury yields. That spread, or 'risk premium', of 4.9% as of the end of October is in excess of the trailing 10-year average of 4.8%. Global REITs remain a yield plus growth oriented investment and therefore have remained well supported amidst extraordinarily low sovereign yields across the globe.

For now, global economies still appear to be in a coordinated global cyclical recovery with improving economic data in the U.S., Europe, and China. We believe all this should mean that bond yields continue to firm upwards albeit in a

more gradual fashion after their recent surge. At the same time, the appointment of Jerome Powell as Fed governor suggests a period of extended policy continuity for now as does Draghi's willingness to extend quantitative easing for longer if necessary. We therefore do not anticipate a disruptive move up in yields as there remain many uncertainties around tax reform and geopolitical risks continue to be a key factor which should limit the upside for bond yields. We believe the medium outlook for REITs remains constructive given the ongoing "Goldilocks" like backdrop of a gradual growth recovery and controlled inflation.

4 www.principalcef.com

Principal Real Estate Income Fund Performance Overview

October 31, 2017 (Unaudited)

References:

The Premium/Discount is the amount (stated in dollars or percent) by which the selling or purchase price of a fund is greater than (premium) or less than (discount) its face amount/value or net asset value (NAV).

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. The duration number is a calculation involving present value, yield, coupon, final maturity and call features. The bigger the duration number, the greater the interest-rate risk or reward for bond prices. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

2.0 CMBS is defined as bonds issued post-2009.

S&P 500[®] Index – A large cap U.S. equities index that includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

Bloomberg Barclays U.S. Aggregate Bond Index – A broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed rate taxable bond market, including Treasuries, government related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass throughs), ABS, and CMBS.

MSCI World Index – MSCI's market capitalization weighted index is composed of companies representative of the market structure of 23 developed market countries in North America, Europe, and the Asia/Pacific Region.

FTSE EPRA/NAREIT Developed NTR Index – A modified market capitalization weighted index, based on free float market capitalization designed to measure the stock performance of companies engaged in specific real estate activities of the North American, European and Asian real estate markets.

The Cboe Volatility Index® (VIX® Index®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

Basis point (bps) refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

A bond rating is a grade given to bonds by private, independent ratings services that indicates their credit quality. Investment grade bonds range from AAA to BBB- and will usually see bond yields increase as ratings decrease.

The internal rate of return on an investment is defined as the discount rate at which the present value of all future cash flows is equal to the initial investment or, in other words, the rate at which an investment breaks even.

Issuance information – JPMorgan

Principal Real Estate Income Fund Performance Overview

October 31, 2017 (Unaudited)

PERFORMANCE as of October 31, 2017

TOTAL RETURNS ⁽¹⁾ Fund	CUMULATIVE		ANNUALIZED		Since Inception ⁽²⁾
	6 Month	1 Year	3 Year		
Net Asset Value (NAV) ⁽³⁾	6.29%	12.46%	7.27%		10.10%
Market Price ⁽⁴⁾	-0.26%	13.37%	5.72%		5.81%
Bloomberg Barclays U.S. Aggregate Bond Index	1.58%	0.90%	2.40%		3.10%
MSCI World Index	9.50%	22.77%	8.13%		10.89%

(1) Total returns assume reinvestment of all distributions.

(2) The Fund commenced operations on June 25, 2013.

(3) Performance returns are net of management fees and other Fund expenses.

(4) Market price is the value at which the Fund trades on an exchange. This market price can be higher or lower than its NAV.

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance data may be higher or lower than actual data quoted. For the most current month-end performance data please call 855.838.9485.

Total Annual Expense Ratio as a Percentage of Net Assets Attributable to Common Shares including interest expense, as of October 31, 2017, 3.03%.

Total Annual Expense Ratio as a Percentage of Net Assets Attributable to Common Shares excluding interest expense, as of October 31, 2017, 2.06%.

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The Fund is a closed-end fund and does not continuously issue shares for sale as open-end mutual funds do. Since the initial public offering, the Fund now trades only in the secondary market. Investors wishing to buy or sell shares need to place orders through an intermediary or broker and additional charges or commissions will apply. The share price of a closed-end fund is based on the market's value.

Distributions may be paid from sources of income other than ordinary income, such as net realized short-term capital gains, net realized long-term capital gains and return of capital. Based on current estimates, we anticipate the most recent distribution has been paid from short-term and long-term capital gains. The actual amounts and sources of the amounts for tax reporting purposes will depend upon a Fund's investment experience during the remainder of its fiscal year and may be subject to changes based on tax regulations. If a distribution includes anything other than net investment income, the Fund provides a Section 19(a) notice of the best estimate of its distribution sources at that time. These estimates may not match the final tax characterization (for the full year's distributions) contained in shareholders' 1099-DIV forms after the end of the year.

Indices are unmanaged; their returns do not reflect any fees, expenses, or sales charges.

An investor cannot invest directly in an index.

ALPS Advisors, Inc. is the investment adviser to the Fund.

ALPS Portfolio Solutions Distributor, Inc. is a FINRA member.

Principal Real Estate Investors, LLC is the investment sub-adviser to the Fund. Principal Real Estate Investors, LLC is not affiliated with ALPS Advisors, Inc. or any of its affiliates.

Secondary market support provided to the Fund by ALPS Fund Services, Inc.'s affiliate, ALPS Portfolio Solutions Distributor, Inc.

6 www.principalcef.com

Principal Real Estate Income Fund Performance Overview

October 31, 2017 (Unaudited)

GROWTH OF A HYPOTHETICAL \$10,000 INVESTMENT

The graph below illustrates the growth of a hypothetical \$10,000 investment assuming the purchase of common shares of beneficial interest at the closing market price (NYSE: PGZ) of \$20.00 on June 25, 2013 (the date of commencement of operations), and tracking its progress through October 31, 2017.

Past performance does not guarantee future results. Performance will fluctuate with changes in market conditions. Current performance may be lower or higher than the performance data shown. Performance information does not reflect the deduction of taxes that shareholders would pay on Fund distributions or the sale of Fund shares. An investment in the Fund involves risk, including loss of principal.

SECTOR ALLOCATION[^]

[^]Holdings are subject to change.

Percentages are based on total investments of the Fund.

Principal Real Estate Income Fund Performance Overview

October 31, 2017 (Unaudited)

GEOGRAPHIC BREAKDOWN *as of October 31, 2017*

	% of Total Investments
United States	79.44%
Japan	2.98%
Australia	2.78%
Singapore	2.50%
Canada	1.92%
Hong Kong	1.66%
Germany	1.58%
France	1.46%
Netherlands	1.45%
Great Britain	1.31%
Spain	1.03%
Mexico	0.70%
Finland	0.59%
Sweden	0.17%
China	0.17%
Poland	0.14%
Ireland	0.12%
	100.00%

Holdings are subject to change.

8 www.principalcef.com

Principal Real Estate Income Fund

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of

Principal Real Estate Income Fund

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Principal Real Estate Income Fund (the "Fund") as of October 31, 2017, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five periods in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2017, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Principal Real Estate Income Fund as of October 31, 2017, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five periods in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

COHEN & COMPANY, LTD.
Cleveland, Ohio
December 22, 2017

Annual Report | October 31, 2017 9

Principal Real Estate Income Fund Statement of Investments

October 31, 2017

Description	Shares	Value (Note 2)
COMMON STOCKS (52.03%)		
Computer Software (0.61%)		
InterXion Holding N.V. ^(a)	15,400	\$822,206
Real Estate Management/Services (2.98%)		
APAC Realty, Ltd. ^(a)	1,424,300	956,081
Charter Hall Group	118,167	524,547
Citycon OYJ	464,193	1,133,339
Deutsche Wohnen AG	24,571	1,046,547
Fabege AB	15,500	327,343
		3,987,857
Real Estate Operation/Development (4.43%)		
ADO Properties SA ^{(b)(c)}	9,697	476,785
Atrium European Real Estate, Ltd.	175,086	819,875
Echo Investment SA	208,924	261,159
LEG Immobilien AG	8,000	812,599
Mitsui Fudosan Co., Ltd.	53,000	1,224,027
New World Development Co., Ltd.	388,000	577,917
Propertylink Group ^(c)	919,252	703,550
SOHO China, Ltd.	560,000	324,455
TLG Immobilien AG	18,000	416,620
Tokyo Tatemono Co., Ltd.	22,300	310,068
		5,927,055
REITS-Apartments (4.92%)		
Apartment Investment & Management Co., Class A	19,700	866,406
Essex Property Trust, Inc.	8,600	2,256,898
Independence Realty Trust, Inc.	153,950	1,562,592
Invitation Homes, Inc.	19,982	450,994
Japan Rental Housing Investments, Inc.	320	221,204
Starwood Waypoint Homes	33,855	1,229,275
		6,587,369
REITS-Diversified (12.70%)		
Altarea SCA	8,469	1,906,434
Arena REIT	350,087	600,184
CapitaLand Commercial Trust	448,210	570,497
Crombie Real Estate Investment Trust	21,015	217,953
Cromwell Property Group	2,170,000	1,660,810
Crown Castle International Corp.	9,653	1,033,643
Dexus	210,000	1,570,270
Empiric Student Property PLC	171,428	221,421
EPR Properties	8,400	581,112

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Equinix, Inc.	1,500	695,250
Fonciere Des Regions	8,820	898,254
Frasers Logistics & Industrial Trust ^(c)	786,387	643,255
Hispania Activos Inmobiliarios SOCIMI SA	18,400	317,319
Invesco Office J-REIT, Inc.	185	169,047

10 www.principalcef.com

Principal Real Estate Income Fund Statement of Investments

October 31, 2017

Description	Shares	Value (Note 2)
REITS-Diversified (12.70%) (continued)		
Irish Residential Properties REIT PLC	140,000	\$ 240,542
LondonMetric Property PLC	145,000	339,714
Merlin Properties Socimi SA	127,000	1,676,115
Secure Income REIT PLC	15,401	77,217
Segro PLC	96,224	693,954
Sekisui House REIT, Inc.	324	358,749
Spring Real Estate Investment Trust	2,870,000	1,261,838
STAG Industrial, Inc.	42,318	1,155,281
Viva Energy REIT	72,840	119,301
		17,008,160
REITS-Health Care (1.02%)		
Physicians Realty Trust	16,000	278,080
Sabra Health Care REIT, Inc.	10,556	210,280
Senior Housing Properties Trust	25,268	464,931
Welltower, Inc.	6,072	406,581
		1,359,872
REITS-Hotels (2.09%)		
Far East Hospitality Trust	1,430,000	734,356
Japan Hotel REIT Investment Corp.	1,200	792,577
Park Hotels & Resorts, Inc.	22,972	661,364
Sunstone Hotel Investors, Inc.	37,000	603,840
		2,792,137
REITS-Manufactured Homes (0.92%)		
Sun Communities, Inc.	13,643	1,231,417
REITS-Mortgage (0.56%)		
CYS Investments, Inc.	93,100	744,800
REITS-Office Property (4.28%)		
Alexandria Real Estate Equities, Inc.	5,800	718,968
alstria office REIT-AG	20,000	283,175
Brandywine Realty Trust	20,100	351,549
Champion REIT	405,000	292,275
City Office REIT, Inc.	103,278	1,346,745
Daiwa Office Investment Corp.	50	242,733
Kilroy Realty Corp.	11,500	819,145
MCUBS MidCity Investment Corp.	335	1,109,252
Viva Industrial Trust	789,500	567,611
		5,731,453

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REITS-Regional Malls (3.20%)		
Frasers Centrepoint Trust	400,000	636,784
Simon Property Group, Inc.	18,700	2,904,671
Tanger Factory Outlet Centers, Inc.	15,000	341,250

Annual Report | October 31, 2017 11

Principal Real Estate Income Fund Statement of Investments

October 31, 2017

Description	Shares	Value (Note 2)
REITS-Regional Malls (3.20%) (continued)		
Taubman Centers, Inc.	8,600	\$406,092 4,288,797
REITS-Shopping Centers (4.90%)		
Aventus Retail Property Fund, Ltd.	117,094	207,914
DDR Corp.	107,000	820,690
Eurocommercial Properties NV	26,783	1,115,335
Fortune Real Estate Investment Trust	587,000	711,045
Kenedix Retail REIT Corp.	436	860,458
Kite Realty Group Trust	28,000	523,320
Link REIT	129,500	1,088,103
NewRiver REIT PLC	219,556	976,580
Ramco-Gershenson Properties Trust	18,400	232,392
Vastned Retail N.V.	637	27,885 6,563,722
REITS-Single Tenant (2.97%)		
Spirit Realty Capital, Inc.	206,000	1,711,860
STORE Capital Corp.	91,609	2,261,826 3,973,686
REITS-Storage/Warehousing (0.95%)		
CubeSmart	22,000	598,840
Extra Space Storage, Inc.	8,200	669,038 1,267,878
REITS-Warehouse/Industrials (5.34%)		
Gramercy Property Trust	25,000	742,500
Granite Real Estate Investment Trust	8,000	309,061
Industrial & Infrastructure Fund Investment Corp.	56	228,275
Japan Logistics Fund, Inc.	115	206,324
Liberty Property Trust	12,200	523,136
Macquarie Mexico Real Estate Management SA de CV	480,000	579,603
PLA Administradora Industrial S de RL de CV	380,100	582,489
Prologis Property Mexico SA de CV	95,900	186,830
Prologis, Inc.	24,000	1,549,920
Terreno Realty Corp.	11,000	403,920
WPT Industrial Real Estate Investment Trust	138,441	1,841,265 7,153,323
Storage/Warehousing (0.16%)		
Safestore Holdings PLC	36,000	212,865
TOTAL COMMON STOCKS		

(Cost \$64,317,121)

69,652,597

12 www.principalcef.com

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Principal Real Estate Income Fund Statement of Investments

October 31, 2017

	Rate	Maturity Date	Principal Amount	Value (Note 2)
COMMERCIAL MORTGAGE BACKED SECURITIES (88.77%)				
Commercial Mortgage Backed Securities-Other (32.84%)				
Bank of America Commercial Mortgage Trust 2008-1 ^(d)	6.309%	01/10/18	\$2,500,000	\$2,505,494
CD Commercial Mortgage Trust 2007-CD4 ^(d)	5.398%	12/11/49	2,344,499	1,441,867
Commercial Mortgage Trust 2007-GG9 ^(d)	5.505%	01/01/18	1,696,087	1,544,766
Credit Suisse Commercial Mortgage Trust Series 2007-C1	5.416%	02/15/40	6,473,945	6,559,520
Deutsche Bank Commercial Mortgage Trust 2017-C6 ^{(d)(e)}	1.043%	06/10/27	26,221,264	1,899,793
FHLMC Multifamily Structured Pass Through Certificates ^{(d)(e)}	1.612%	01/25/26	9,690,000	1,045,190
FHLMC Multifamily Structured Pass Through Certificates ^{(d)(e)}	1.658%	06/25/42	27,830,000	686,485
FHLMC Multifamily Structured Pass Through Certificates ^{(d)(e)}	1.700%	04/25/40	30,601,130	684,465
FHLMC Multifamily Structured Pass Through Certificates ^{(d)(e)}	1.806%	01/25/19	27,555,000	512,446
FHLMC Multifamily Structured Pass Through Certificates ^{(d)(e)}	1.904%	12/25/18	59,523,998	1,119,819
FHLMC Multifamily Structured Pass Through Certificates ^{(d)(e)}	3.615%	06/25/21	9,000,000	1,014,605
JPMorgan Chase Commercial Mortgage Securities Trust 2006-CIBC17 ^(d)	5.489%	12/12/43	1,652,295	1,387,928
JPMorgan Chase Commercial Mortgage Securities Trust 2007-CIBC19 ^(d)	5.795%	06/01/18	3,500,000	2,805,078
JPMorgan Chase Commercial Mortgage Securities Trust 2013-C15 ^{(b)(d)(e)}	1.520%	10/15/23	11,500,000	845,312
JPMorgan Chase Commercial Mortgage Securities Trust 2014-C21 ^{(b)(d)}	3.900%	07/15/24	12,747,500	8,895,829
JPMorgan Chase Commercial Mortgage Securities Trust 2017-JP6 ^{(d)(e)}	1.330%	05/15/27	11,978,089	938,434
LB Commercial Mortgage Trust 2007-C3 ^(d)	5.908%	07/15/44	219,343	219,820
LB-UBS Commercial Mortgage Trust 2006-C7	5.407%	11/15/38	1,314,518	1,007,332
Morgan Stanley Bank of America Merrill Lynch Trust 2015-C20 ^{(b)(d)(e)}	1.612%	02/15/25	23,967,000	2,104,686
Morgan Stanley Capital I Trust 2016-UB11 ^{(b)(d)(e)}	1.500%	08/15/26	13,495,500	1,279,720
Wachovia Bank Commercial Mortgage Trust Series 2006-C29 ^(d)	5.368%	11/18/48	2,380,725	2,399,175
Wachovia Bank Commercial Mortgage Trust Series 2007-C30 ^(d)	5.413%	12/15/43	3,011,636	3,075,633
				43,973,397

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Principal Real Estate Income Fund Statement of Investments

October 31, 2017

	Rate	Maturity Date	Principal Amount	Value (Note 2)
Commercial Mortgage Backed Securities-Subordinated (55.93%)				
BANK 2017-BNK5 ^{(b)(d)}	4.400%	07/15/27	\$7,500,000	\$5,007,533
Bank of America Commercial Mortgage Trust 2016-UBS10 ^(b)	3.000%	05/15/26	3,500,000	2,563,597
CD Commercial Mortgage Trust 2017-CD5 ^(b)	3.350%	07/15/27	3,000,000	2,463,916
CFCRE Commercial Mortgage Trust 2016-C3 ^{(b)(d)}	3.052%	01/10/26	5,484,000	4,061,962
CFCRE Commercial Mortgage Trust 2016-C7 ^{(b)(d)}	4.441%	12/10/26	1,500,000	1,249,679
Commercial Mortgage Pass Through Certificates Series 2014-CR14 ^{(b)(d)}	3.496%	01/10/24	2,000,000	1,325,383
Commercial Mortgage Trust 2013-CCRE11 ^{(b)(d)}	4.371%	10/10/23	5,108,000	3,974,371
Commercial Mortgage Trust 2014-CCRE17 ^{(b)(d)}	4.299%	05/10/24	8,600,000	5,573,036
Commercial Mortgage Trust 2014-UBS2 ^{(b)(d)}	5.015%	02/10/24	2,432,500	2,107,443
Commercial Mortgage Trust 2014-UBS5 ^(b)	3.495%	09/10/24	4,250,000	3,274,852
CSAIL Commercial Mortgage Trust 2015-C4 ^(d)	3.584%	11/15/25	5,000,000	3,702,663
Goldman Sachs Mortgage Securities Trust 2013-GC13 ^{(b)(d)}	4.066%	07/10/23	3,000,000	2,792,920
Goldman Sachs Mortgage Securities Trust 2013-GC16 ^{(b)(d)}	5.320%	11/10/46	2,342,405	2,293,612
Goldman Sachs Mortgage Securities Trust 2013-GCJ14 ^{(b)(d)}	4.763%	08/10/23	2,000,000	1,559,983
Goldman Sachs Mortgage Securities Trust 2014-GC20 ^{(b)(d)}	4.859%	04/10/47	2,750,000	1,979,124
Goldman Sachs Mortgage Securities Trust 2014-GC22 ^(b)	3.582%	06/10/47	8,326,000	5,409,750
JPMorgan Chase Commercial Mortgage Securities Trust 2006-CIBC16	5.623%	05/12/45	2,017,431	1,828,202
JPMorgan Chase Commercial Mortgage Securities Trust 2013-C15 ^(b)	3.500%	10/15/23	2,500,000	1,861,264
JPMorgan Chase Commercial Mortgage Securities Trust 2013-C16 ^{(b)(d)}	3.744%	11/15/23	1,433,000	1,076,202
JPMorgan Chase Commercial Mortgage Securities Trust 2013-C16 ^{(b)(d)}	4.975%	11/15/23	2,117,483	2,027,657
Morgan Stanley Bank of America Merrill Lynch Trust 2013-C8 ^{(b)(d)}	4.061%	02/15/23	3,000,000	2,774,595
Morgan Stanley Bank of America Merrill Lynch Trust 2015-C26 ^{(b)(d)}	4.410%	10/15/25	3,576,000	2,523,831
Morgan Stanley Bank of America Merrill Lynch Trust 2017-C34 ^{(b)(d)(f)}	3.300%	10/15/27	3,450,000	2,002,887
Morgan Stanley Capital I Trust 2016-UB11 ^{(b)(d)}	2.708%	08/15/26	5,000,000	3,059,897

14 www.principalcef.com

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Principal Real Estate Income Fund Statement of Investments

October 31, 2017

	Rate	Maturity Date	Principal Amount	Value (Note 2)
Commercial Mortgage Backed Securities-Subordinated (continued)				
Wells Fargo Commercial Mortgage Trust 2014-LC18 ^{(b)(d)}	3.957%	12/15/24	\$2,490,000	\$2,107,908
Wells Fargo Commercial Mortgage Trust 2015-NXS1 ^(d)	4.103%	04/15/25	3,440,000	3,072,073
Wells Fargo Commercial Mortgage Trust 2015-NXS3 ^(b)	3.153%	09/15/57	1,500,000	1,158,048
WFRBS Commercial Mortgage Trust 2014-C20 ^(b)	3.986%	05/15/24	2,650,000	2,046,739
				74,879,127
TOTAL COMMERCIAL MORTGAGE BACKED SECURITIES				
(Cost \$117,168,036)				118,852,524

	7-Day Yield	Shares	Value (Note 2)
SHORT TERM INVESTMENTS (3.28%)			
State Street Institutional Treasury Plus Money Market Fund	0.930%	4,396,273	4,396,273
TOTAL SHORT TERM INVESTMENTS			
(Cost \$4,396,273)			4,396,273
TOTAL INVESTMENTS (144.08%)			
(Cost \$185,881,430)			\$192,901,394
Liabilities in Excess of Other Assets (-44.08%)			(59,015,797)
NET ASSETS (100.00%)			\$133,885,597

Annual Report | October 31, 2017 15

Principal Real Estate Income Fund Statement of Investments

October 31, 2017

(a) *Non-income producing security.*

Security exempt from registration under Rule 144A of the Securities Act of 1933. Such securities may normally be sold to qualified institutional buyers in transactions exempt from registration. The total value of Rule 144A securities amounts \$79,878,521, which represents approximately 59.66% of net assets as of October 31, 2017.

Securities were purchased pursuant to Regulation S under the Securities Act of 1933, which exempts securities offered and sold outside of the United States from registration. Such securities cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. As of October 31, 2017, the aggregate market value of those securities was \$1,823,590, representing 1.36% of net assets.

Variable rate investment. Interest rates reset periodically. Interest rate shown reflects the rate in effect at October 31, 2017. For securities based on a published reference rate and spread, the reference rate and spread are indicated in the description above. Certain variable rate securities are not based on a published reference rate and spread but are determined by the issuer or agent and are based on current market conditions. These securities do not indicate a reference rate and spread in their description above.

(e) *Interest only security.*

(f) *Security determined to be fair valued under the procedures approved by the Fund's Board of Trustees.*

See Notes to Financial Statements.

16 www.principalcef.com

Principal Real Estate Income Fund

Statement of Assets and Liabilities *October 31, 2017*

ASSETS:

Investments, at value	\$ 192,901,394
Cash	8,872
Cash denominated in foreign currency, at value (Cost \$551,509)	551,680
Receivable for investments sold	246,116
Interest receivable	864,974
Dividends receivable	136,979
Prepaid and other assets	53,125
Total Assets	194,763,140

LIABILITIES:

Loan payable (Note 3)	60,000,000
Interest due on loan payable	179,162
Payable for investments purchased	408,801
Payable to adviser	173,743
Payable to administrator	33,428
Payable to transfer agent	2,345
Payable for trustee fees	26,670
Other payables	53,394
Total Liabilities	60,877,543
Net Assets	\$ 133,885,597

NET ASSETS CONSIST OF:

Paid-in capital	\$ 130,175,528
Distributions in excess of net investment income	(1,765,631)
Accumulated net realized loss on investments and foreign currency transactions	(1,541,204)
Net unrealized appreciation on investments and translation of assets and liabilities denominated in foreign currencies	7,016,904
Net Assets	\$ 133,885,597

PRICING OF SHARES:

Net Assets	\$ 133,885,597
Shares of beneficial interest outstanding (unlimited number of shares authorized, no par value per share)	6,899,800
Net asset value per share	\$ 19.40
Cost of Investments	\$ 185,881,430

See Notes to Financial Statements.

Principal Real Estate Income Fund Statement of Operations

For the Year Ended October 31, 2017

INVESTMENT INCOME:

Interest	\$8,423,627
Dividends (net of foreign withholding tax of \$110,732)	2,432,408
Total Investment Income	10,856,035

EXPENSES:

Investment advisory fees	2,018,537
Interest on loan	1,291,339
Administration fees	313,973
Transfer agent fees	27,169
Audit fees	31,000
Legal fees	66,969
Custodian fees	31,582
Trustee fees	97,869
Printing fees	26,827
Insurance fees	31,988
Excise tax	13,799
Other	60,176
Total Expenses	4,011,228
Net Investment Income	6,844,807

REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:

Net realized gain/(loss) on:	
Investments	1,098,005
Foreign currency transactions	(2,818)
Net realized gain	1,095,187
Net change in unrealized appreciation/(depreciation) on:	
Investments	6,440,688
Translation of assets and liabilities denominated in foreign currencies	9,157
Net change in unrealized appreciation	6,449,845
Net Realized and Unrealized Gain on Investments and Foreign Currency	7,545,032
Net Increase in Net Assets Resulting from Operations	\$ 14,389,839

See Notes to Financial Statements.

Principal Real Estate Income Fund

Statements of Changes in Net Assets