COHEN & STEERS QUALITY INCOME REALTY FUND INC
Form N-CSR
March 08, 2011

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 811-10481

Cohen & Steers Quality Income Realty Fund, Inc.
(Exact name of registrant as specified in charter)

280 Park Avenue, New York, NY	10017
(Address of principal executive offices)	(Zip code)

Adam M. Derechin
Cohen & Steers Capital Management, Inc.
280 Park Avenue
New York, New York 10017
(Name and address of agent for service)

Registrant s telephone number, including area code: (212) 832-3232

Date of fiscal year end: December 31

Date of reporting period: December 31, 2010

Item 1. Reports to Stockholders.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

To Our Shareholders:

We would like to share with you our report for the year ended December 31, 2010. The net asset value (NAV) at that date was $9.56 per common share. The Fund's common stock is traded on the New York Stock Exchange (NYSE) and its share price can differ from its NAV; at year end, the Fund's closing price on the NYSE was $8.65.

The total returns, including income, for the Fund and its comparative benchmarks were:

	Six Months Ended December 31, 2010	Year Ended December 31, 2010
Cohen & Steers Quality Income Realty Fund at Market Value	42.52%	52.82%
Cohen & Steers Quality Income Realty Fund at NAV[a]	29.49%	37.80%
FTSE NAREIT Equity REIT Index[b]	21.22%	27.96%
S&P 500 Index[b]	23.27%	15.06%
Blended benchmark 80% FTSE NAREIT Equity REIT Index, 20% BofA Merrill Lynch REIT Preferred Index[b]	18.29%	25.36%

The performance data quoted represent past performance. Past performance is no guarantee of future results. The investment return and the principal value of an investment will fluctuate and shares, if sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Performance results reflect the effects of leverage, resulting from borrowings under a credit agreement. Current total returns of the Fund can be obtained by visiting our Web site at cohenandsteers.com.

The Fund implements fair value pricing when the daily change in a specific U.S. market index exceeds a predetermined percentage. Fair value pricing adjusts the valuation of non-U.S. holdings to account for such index change following the close of foreign markets. This standard practice has been adopted by a majority of the fund industry to deter investors from arbitraging funds with a large percentage of non-U.S. holdings. In the event fair value pricing is implemented on the first and/or last day of a performance measurement period, the Fund's return may diverge from the relative performance of its benchmark index, which does not use fair value pricing. An investor cannot invest directly in an index.

[a] As a closed-end investment company, the price of the Fund's NYSE-traded shares will be set by market forces and at times may deviate from the NAV per share of the Fund.

[b] The FTSE NAREIT Equity REIT Index is an unmanaged, market-capitalization-weighted index of all publicly traded REITs that invest predominantly in the equity ownership of real estate. The index is designed to reflect the performance of all publicly traded equity REITs as a whole. The S&P 500 Index is an unmanaged index of common stocks that is frequently used as a general measure of stock market performance. The BofA Merrill Lynch REIT Preferred Index is an unmanaged index of real estate preferred securities.

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The Fund makes regular quarterly distributions at a level rate (the "Policy"). Distributions paid by the Fund are subject to recharacterization for tax purposes and are taxable up to the amount of the Fund's investment company taxable income and net realized gains. As a result of the Policy, the Fund may pay distributions in excess of the Fund's investment company taxable income and realized gains. This excess would be a "return of capital" distributed from the Fund's assets. Distributions of capital decrease the Fund's total assets and, therefore, could have the effect of increasing the Fund's expense ratio. In addition, in order to make these distributions, the Fund may have to sell portfolio securities at a less than opportune time.

Investment Review

U.S. real estate securities achieved exceptionally strong returns in 2010, fueled by improving fundamentals and a significant compression in cap rates. The year also marked a shift from defense to offense: having recapitalized in 2009, many REITs began to make acquisitions and raise dividends. Investors noticed, and rewarded them for it.

After a rough start in January, REIT shares rallied as companies reported strong earnings, stabilizing rents and higher occupancies, particularly among Class A properties. But in May, stocks retreated globally when Greece was forced to accept emergency loans to avoid default, sparking fears that fiscal troubles in Europe could have a global impact. A volatile summer ensued as economists debated whether the United States would be pulled into a double-dip recession.

Markets revived in late August on hints of a second round of quantitative easing by the Federal Reserve, which was enacted in November. European sovereign risk resurfaced in the fourth quarter, but strong retail sales and the extension of low tax rates fueled a strong finish to the year.

Early-cyclical REITs led the way

Every property sector advanced in 2010, led by those poised to gain the most from improving economic conditions. Apartment REITs (which had a total return of +47.0%[c] in the blended benchmark) were the top performers, benefiting from tight supply, relatively short leases and reduced interest in home buying. While apartment revenues are generally linked to employment, job growth among younger workers near urban centers a major renting constituency was comparatively healthy.

In the hotel sector (+42.8%), RevPAR (revenue per available room) estimates rose substantially during the year amid strengthening demand, an increase in higher-paying business travelers and little new supply in the pipeline. Regional mall owners (+34.6%) were also strong, although companies with higher-quality portfolios underperformed, having already experienced significant cap-rate compression in 2009.

[c] Sector returns in USD, as measured by the FTSE NAREIT Equity REIT Index.

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Among shopping center REITs (+30.8%), big box power centers did particularly well, as they were successful at finding stable national brands to replace tenants that had gone bankrupt during the recession. In contrast, grocery-anchored centers struggled to maintain occupancy, since their tenants tend to be local businesses less able to cope with the tepid economy.

Office and health care rose, but still trailed other sectors

Office REITs (+18.4%) saw strong demand in core urban markets, supporting a rise in occupancies and rents. Boston Properties' acquisition of the John Hancock Tower underscored the strength of this segment. However, suburban offices were more vulnerable, weighed down by excess supply and tenants that renewed leases at reduced square footage following headcount cuts. The traditionally defensive health care sector (+19.2%) behaved less "bond-like" than it has historically. Further, health care REITs executed significant and generally cash-flow-accretive acquisitions throughout the year.

Preferred issues see improved LBO protections

In the yield-starved market, investors scooped up newly issued REIT preferred securities, attracted to preferreds' high income rates and improving real estate fundamentals. (REIT preferreds had a total return of +14.0%[d] in 2010.) Smaller REITs, in particular, were active issuers as they ramped up acquisitions to take advantage of an improving business cycle. Notably, most new issues provided better leveraged buyout protections compared to past offerings, with some enabling the shares to be exchanged for common stock or cash based on the their liquidation value significantly reducing the potential loss in the event of a private takeover. Cohen & Steers actively sought the enhanced protections in these deals and played a key role in drafting the document language.

Fund performance

The Fund's performance on a NAV basis compared to its benchmark was aided by stock selection in shopping center REITs, where we focused on high-quality assets anchored by big-box stores. Stock selection in office operators was also beneficial, as we targeted owners of central business district properties with strong fundamentals. Other positive factors included stock selection in the apartment sector, as well as our early underweight, transitioning to overweight later in the year as the economic outlook improved and cyclical sectors outperformed.

The industrial sector (which returned +18.9% in the FTSE NAREIT Equity REIT Index) was a major detractor for the year: we were bullish on the sector's largest component, which underperformed in part due to its exposure to European markets. Stock selection in the regional mall sector also weighed on the portfolio. We focused on larger mall owners that we believed would benefit from acquisition opportunities and low capital costs; these holdings achieved strong absolute returns, but they underperformed the stellar returns of smaller, more-leveraged companies with lower-quality assets.

[d] As measured by the BofA Merrill Lynch REIT Preferred Index.

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Security selection in the Fund's preferred securities allocation was a large contributor to returns relative to the blended benchmark, although our underweight somewhat reduced this advantage. Security selection in shopping center REIT preferreds helped, as did our out-of-index holdings in the office, regional mall and apartment sectors.

The Fund employs leverage as part of a yield-enhancement strategy. Leverage, which can increase total return in rising markets (just as it can have the opposite effect in declining markets), boosted the Fund's performance for the year compared with its benchmarks, which are not leveraged.

Impact of derivatives on Fund performance

The Fund is leveraged using bank borrowings and pays a floating rate of interest on these borrowings. The Fund has employed interest rate swaps with the purpose of reducing the impact of a potential increase in interest rates which would negatively impact Fund earnings. In effect, the swaps exchange a floating rate payment for a fixed rate payment. Although employed as a hedge, the swaps are marked-to-market daily and can contribute positively or negatively to the net asset value of the Fund.

The Fund also sold put or covered call options on an index or security with the intention of earning option premiums, potentially increasing distributable income and reducing volatility.

In 2010, the use of these swaps and options did not have a material impact on the NAV or performance of the Fund.

Investment Outlook

The U.S. economy appears to be heading in the right direction, even though the recovery has been slow. We are also mindful of potential risks, including high unemployment, a burgeoning Federal deficit, fiscal strain in parts of Europe and monetary tightening in China, all of which demand close monitoring.

Fundamentals have bottomed in most property sectors, in our view, likely leading to healthy dividend increases, more public equity offerings and an increase in acquisition activity. But with cap-rate compression having essentially run its course, further multiple expansion will require cash flow growth, which we expect to accelerate in 2011. We are also mindful of the need to protect asset values in the face of rising interest rates over the coming year, leading us to favor companies with strong fundamental drivers that we believe will be in a position to demand rent increases.

We are oriented toward economically sensitive sectors, such as apartments, which we believe will benefit from an increase in household formation. One risk to apartment owners is that more renters become buyers as home prices fall and mortgage financing become more readily available. Hotel REITs remain attractive from a cyclical standpoint, but we note that current share prices have already factored in strong revenue growth and tight supply over the next three to four years. We continue to be positive on regional mall owners, targeting larger companies in the sector.

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We remain cautious in the office sector, with a focus on core urban markets, as we have concerns about the fundamental recovery in suburban areas. However, we have been selectively adding to our suburban office holdings in cases where relative values have become more attractive. We are also maintaining a reduced allocation to healthcare and industrial REITs on valuation.

In the preferred securities market, while many financial issuers will likely limit issuance until further clarity on financial reform is available, we believe REITs will continue to issue new preferreds to take advantage of accretive acquisition opportunities and the improving economic climate. Given the generally attractive yields and wide credit spreads offered by these securities, we expect the supply to be met with strong investor demand.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

Sincerely,

MARTIN COHEN	ROBERT H. STEERS
Co-chairman	*Co-chairman*
JOSEPH M. HARVEY	WILLIAM F. SCAPELL
Portfolio Manager	*Portfolio Manager*

THOMAS N. BOHJALIAN

Portfolio Manager

The views and opinions in the preceding commentary are subject to change. There is no guarantee that any market forecast set forth in the commentary will be realized. This material represents an assessment of the market environment at a specific point in time, should not be relied upon as investment advice and is not intended to predict or depict performance of any investment.

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For more information about any of our funds, visit cohenandsteers.com, where you will find daily net asset values, fund fact sheets and portfolio highlights. You can also access newsletters, education tools and market updates covering the global real estate, listed infrastructure, utilities, large cap value and preferred securities sectors.

In addition, our Web site contains comprehensive information about our firm, including our most recent press releases, profiles of our senior investment professionals and an overview of our investment approach.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

Our Leverage Strategy
(Unaudited)

Our current leverage strategy utilizes borrowings up to the maximum permitted by the 1940 Act to provide additional capital for the Fund, with an objective of increasing the net income available for shareholders. As of December 31, 2010, leverage represented 30%[a] of the Fund's managed assets.

It has been our philosophy to utilize interest rate swap transactions to seek to reduce the interest rate risk inherent in our utilization of leverage. Considering that borrowings have variable interest rate payments, we seek to lock in those rates on a significant portion of this additional capital through interest rate swap agreements (where we effectively convert our variable rate obligation to a fixed rate obligation for the term of the swap agreements). Specifically, as of December 31, 2010, we have fixed the rate on 45% of our borrowings at an average interest rate of 3.5% for an average remaining period of 2.6 years (when we first entered into the swaps, the average term was 5.5 years). Locking in a significant portion of our leveraging costs is designed to protect the dividend-paying ability of the Fund. The use of leverage increases the volatility of the Fund's net asset value in both up and down markets. However, we believe that locking in a portion of the Fund's leveraging costs for the term of the swap agreements partially protects the Fund's expenses from an increase in short-term interest rates.

Leverage Facts[b]

Leverage (as a % of managed assets)[a]	30%
% Fixed Rate	45%
% Variable Rate	55%
Weighted Average Rate on Swaps	3.5%
Weighted Average Term on Swaps	2.6 years
Current Rate on Debt[c]	1.3%

The Fund seeks to enhance its dividend yield through leverage. The use of leverage is a speculative technique and there are special risks and costs associated with leverage. The net asset value of the Fund's common shares may be reduced by the issuance and ongoing costs of leverage. So long as the Fund is able to invest in securities that produce a realized investment yield that is greater than the total cost of leverage, the leverage strategy will produce higher current net investment income for the common shareholders. On the other hand, to the extent that the total cost of leverage exceeds the incremental income gained from employing such leverage, the common shareholders would realize lower net investment income. In addition to the impact on net income, the use of leverage will have an effect of magnifying capital appreciation or depreciation for common shareholders. Specifically, in an up market, leverage will typically generate greater capital appreciation than if the Fund was not employing leverage. Conversely, in down markets, the use of leverage will generally result in greater capital depreciation than if the Fund had been unlevered. To the extent that the Fund is required or elects to reduce its leverage, the Fund may need to liquidate investments, including under adverse economic conditions which may result in capital losses potentially reducing returns to common shareholders. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed.

[a] On June 1, 2009, the Securities and Exchange Commission (SEC) issued an order (the "Order") to the Fund providing an exemption from Section 18(a)(1) of the 1940 Act. The Order temporarily permitted the Fund to maintain 200% asset coverage for debt used to replace auction market preferred securities (AMPS) rather than 300% asset

coverage required by Section 18(a)(1) for debt. Effective June 10, 2010, it was no longer necessary for the Fund to utilize the temporary relief and the Fund began complying with the 300% asset coverage required by Section 18(a)(1).

[b] Data as of December 31, 2010. Information is subject to change.

[c] See Note 6 in Notes to Financial Statements.

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DECEMBER 31, 2010

Top Ten Holdings[a]
(Unaudited)

Security	Value	% of Managed Assets
Simon Property Group	$ 141,290,127	9.3%
Equity Residential	88,788,628	5.9
Public Storage	62,291,048	4.1
Boston Properties	51,416,165	3.4
Host Hotels & Resorts	49,579,833	3.3
AvalonBay Communities	42,298,766	2.8
Vornado Realty Trust	41,873,158	2.8
ProLogis	41,645,855	2.8
Kimco Realty Corp.	38,742,163	2.6
Ventas	37,774,789	2.5

[a] Top ten holdings are determined on the basis of the value of individual securities held. All of the securities listed above are common stock. The Fund may also hold positions in other types of securities issued by the companies listed above. See the Schedule of Investments for additional details on such other positions.

Sector Breakdown

(Based on Managed Assets)
(Unaudited)

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS

December 31, 2010

		Number of Shares	Value
COMMON STOCK	108.4%		
BANK	0.2%		
SJB Escrow Corp., Class A, 144A[a,b,c,d]		119,300	$ 2,386,000
REAL ESTATE	108.2%		
DIVERSIFIED	6.4%		
BGP Holdings PLC (EUR) (Australia)[a,c,d]		3,927,678	0
Forest City Enterprises[a,e,f]		843,493	14,077,898
Great Eagle Holdings Ltd. (Hong Kong)		1,231,743	3,834,935
Lexington Realty Trust[e,f]		907,651	7,215,826
Vornado Realty Trust[e,f]		502,498	41,873,158
			67,001,817
HEALTH CARE	11.4%		
Brookdale Senior Living[a,e,f]		384,032	8,222,125
Cogdell Spencer[g]		1,092,700	6,337,660
HCP[e,f]		467,013	17,181,409
Health Care REIT[e,f]		646,030	30,776,869
LTC Properties		279,800	7,856,784
Nationwide Health Properties[e,f]		327,247	11,905,246
Ventas		719,794	37,774,789
			120,054,882
HOTEL	7.7%		
Hersha Hospitality Trust		1,854,154	12,237,416
Hospitality Properties Trust[e,f]		327,569	7,547,190
Host Hotels & Resorts[e,f]		2,774,473	49,579,833
Sunstone Hotel Investors[a,e,f]		1,071,453	11,068,109
			80,432,548
INDUSTRIAL	5.6%		
AMB Property Corp.		343,585	10,895,080
ProLogis[e,f]		2,884,062	41,645,855
Segro PLC (United Kingdom)[e]		1,378,153	6,153,812
			58,694,747

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

		Number of Shares	Value
OFFICE	11.3%		
Boston Properties[e,f]		597,168	$ 51,416,165
Brandywine Realty Trust		76,614	892,553
Douglas Emmett[e,f]		644,546	10,699,464
Hudson Pacific Properties[g]		242,128	3,644,026
Liberty Property Trust[e,f]		574,759	18,346,307
Mack-Cali Realty Corp.[e]		570,244	18,852,267
SL Green Realty Corp.[e,f]		220,850	14,909,583
			118,760,365
OFFICE/INDUSTRIAL	1.3%		
PS Business Parks[e,f]		247,370	13,783,457
RESIDENTIAL	27.2%		
APARTMENT	26.1%		
Apartment Investment & Management Co.[e,f]		1,010,651	26,115,222
Associated Estates Realty Corp.[e]			