COHEN & STEERS QUALITY INCOME REALTY FUND INC
Form 497
November 18, 2004

PROSPECTUS

[COHEN & STEERS QUALITY INCOME REALTY FUND LOGO]

$94,000,000

COHEN & STEERS
QUALITY INCOME REALTY FUND, INC.
AUCTION MARKET PREFERRED SHARES ('AMPS')
3,760 SHARES, SERIES M7
LIQUIDATION PREFERENCE $25,000 PER SHARE

Cohen & Steers Quality Income Realty Fund, Inc. (the 'Fund') is offering 3,760 Series M7 Auction Market Preferred Shares. The shares are referred to in this Prospectus as 'AMPS.' The Fund is a non-diversified, closed-end management investment company. The Fund's primary investment objective is high current income through investment in real estate securities and its secondary investment objective is capital appreciation. Under normal market conditions, the Fund will invest at least 90% of its total assets in common stocks, preferred stocks and other equity securities issued by real estate companies, such as 'real estate investment trusts' ('REITs'). At least 80% of the Fund's total assets will be invested in income producing equity securities issued by high quality REITs. The Fund may invest up to 10% of its total assets in debt securities issued or guaranteed by real estate companies. The Fund will not invest more than 20% of its total assets in non-investment grade preferred stock or debt securities (commonly known as 'junk bonds'). There can be no assurance that the Fund will achieve its investment objectives. See 'Investment Objectives and Policies.' The Fund's investment manager is Cohen & Steers Capital Management, Inc.

(continued on following page)

INVESTING IN THE AMPS INVOLVES RISKS THAT ARE DESCRIBED IN THE 'RISK FACTORS' SECTION BEGINNING ON PAGE 25 OF THIS PROSPECTUS. THE MINIMUM PURCHASE AMOUNT OF THE AMPS IS $25,000.

	PER SHARE	TOTAL
Public offering price	$25,000	$94,000,000
Sales load	$250	$940,000
Proceeds to the Fund(1)	$24,750	$93,060,000

(1) Not including offering expenses payable by the Fund estimated to be $395,519

The public offering price per share will be increased by the amount of dividends, if any, that have accumulated from the date the AMPS are first issued.

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

The underwriters are offering the AMPS subject to various conditions. The AMPS will be ready for delivery in book-entry form only through the facilities of The Depository Trust Company, on or about November 19, 2004.

MERRILL LYNCH & CO.
CITIGROUP
A.G. EDWARDS
UBS INVESTMENT BANK
WACHOVIA SECURITIES

The date of this Prospectus is November 17, 2004.

Investors in the AMPS will be entitled to receive cash dividends at an annual rate that may vary for the successive dividend periods for the AMPS. The AMPS have a liquidation preference of $25,000 per share, plus any accumulated, unpaid dividends. The AMPS also have priority over the Fund's common shares as to distribution of assets as described in this Prospectus. See 'Description of AMPS.' As of November 8, 2004, the Fund has outstanding 13,600 shares of five other series of preferred stock: 2,800 Series T AMPS, par value $.001 per share (the 'Series T AMPS'), 2,800 Series W AMPS, par value $.001 per share (the 'Series W AMPS'), 2,800 Series TH AMPS, par value $.001 per share (the 'Series TH AMPS'), 2,800 Series F AMPS, par value $.001 per share (the 'Series F AMPS'), and 2,400 Series M28 AMPS, par value $.001 per share (the 'Series M28 AMPS'). References to the AMPS and the Series T, Series W, Series TH, Series F and Series M28 AMPS refer to Taxable Auction Market Preferred Shares. The AMPS offered in this Prospectus rank on a parity with the Series T AMPS, Series W AMPS, Series TH AMPS, Series F AMPS and Series M28 AMPS with respect to dividends and liquidation preference. The AMPS and any other outstanding shares of preferred stock have priority over the Fund's common shares as to dividends and distribution of assets as described in this Prospectus. See 'Description of AMPS.' The dividend rate for the initial dividend period will be 2.05% for the AMPS. The initial dividend period is from the date of issuance through November 29, 2004 for the AMPS. For subsequent dividend periods, the AMPS will pay dividends based on a rate set at auction, usually held every seven days. Prospective purchasers should note: (1) a buy order (called a 'bid order') or sell order is a commitment to buy or sell the AMPS based on the results of an auction; and (2) purchases and sales will be settled on the next business day after the auction. Investors may only buy or sell the AMPS through an order placed at an auction with or through a broker-dealer in accordance with the procedures specified in this Prospectus. Broker-dealers are not required to maintain a secondary market in the AMPS, and a secondary market may not provide you with liquidity. The Fund may redeem the AMPS as described under 'Description of AMPS -- Redemption.'

The AMPS do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

The AMPS will be senior to the Fund's outstanding common shares. The AMPS are not listed on an exchange. The Fund's common shares are traded on the New York Stock Exchange (the 'NYSE') under the symbol 'RQI.' It is a condition of closing this offering that the AMPS be offered with a rating of 'AAA' from Standard & Poor's Ratings Services Group, a division of The McGraw-Hill Companies, Inc. ('S&P') and of 'Aaa' from Moody's Investors Service, Inc. ('Moody's').

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS. WE 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. WE 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. OUR BUSINESS, FINANCIAL CONDITION AND PROSPECTS MAY HAVE CHANGED

SINCE THAT DATE.

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 Information, dated November 17, 2004, as it may be supplemented (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 (which means it is considered part of) this Prospectus. You can review the table of contents of the SAI on page 59 of this Prospectus. You may request a free copy of the SAI by calling (800) 437-9912. You may also obtain the SAI and other information regarding the Fund on the Securities and Exchange Commission website (http://www.sec.gov).

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PROSPECTUS SUMMARY

This is only a summary. This summary does not contain all of the information that you should consider before investing in AMPS. You should review the more detailed information contained in this Prospectus and in the SAI, especially the information set forth under the heading 'Risk Factors.'

THE FUND....................................	The Cohen & Steers Quality Income Realty Fund, Inc (the 'Fund') is a non-diversified, closed-end management investment company. The Fund was organi as a Maryland corporation on August 22, 2001 and i registered under the Investment Company Act of 194 as amended (the '1940 Act'). The Fund commenced investment operations on February 28, 2002 upon th closing of an initial public offering of 34,000,00 common shares, par value $.001 per share ('Common Shares'). On March 8, 2002 and March 21, 2002, the Fund issued 2,000,000 and 1,700,000 additional Com Shares, respectively, in connection with a partial exercise by the underwriters of the overallotment option. The Fund issued 2,800 Series T AMPS, 2,800 Series W AMPS, 2,800 Series TH AMPS and 2,800 Series F AMPS on April 4, 2002. The Fund issued 2, Series M28 AMPS on September 15, 2003. References the AMPS and the Series T, Series W, Series TH, Series F and Series M28 AMPS refer to Taxable Auct Market Preferred Shares. As of November 8, 2004, t Fund had 38,856,074 Common Shares outstanding and assets, plus the liquidation value of the Series T AMPS, Series W AMPS, Series TH AMPS, Series F AMPS and Series M28 AMPS, of $1,148,956,226. The Fund's principal office is located at 757 Third Avenue, N York, New York 10017, and its telephone number is (212) 832-3232.

THE OFFERING................................ The Fund is offering 3,760 Series M7 Auction Marke
Preferred Shares, par value $.001 (the 'AMPS'), at
purchase price of $25,000 per share plus dividends
if any, that have accumulated from the date the Fu
first issues the AMPS. The AMPS are offered throug
group of underwriters led by Merrill Lynch, Pierce
Fenner & Smith Incorporated ('Merrill Lynch').
The AMPS entitle their holders to receive cash
dividends at an annual rate that may vary for the
successive dividend periods for the AMPS. In gener
except as

described under ' -- Dividends and Rate Periods'
below and 'Description of AMPS -- Dividends and Ra
Periods,' the dividend period for the AMPS will be
seven days. The auction agent will determine the
dividend rate for a particular period by an auctio
conducted on the business day immediately prior to
the start of that rate period. See 'The Auction.'

The AMPS are not listed on an exchange. Instead,
investors may buy or sell the AMPS in an auction b
submitting orders to broker-dealers that have ente
into an agreement with the auction agent and the
Fund.

Generally, investors in the AMPS will not receive
certificates representing ownership of their share
The securities depository (The Depository Trust
Company or any successor) or its nominee for the
account of the investor's broker-dealer will maint
record ownership of the AMPS in book-entry form. A
investor's broker-dealer, in turn, will maintain
records of that investor's beneficial ownership of
the AMPS.

RATINGS..................................... The Fund will issue the AMPS only if such shares h
received a credit quality rating of 'AAA' from S&P
and 'Aaa' from Moody's. These ratings are an
assessment of the capacity and willingness of an
issuer to pay preferred stock obligations. The
ratings are not a recommendation to purchase, hold
sell those shares inasmuch as the rating does not
comment as to the market price or suitability for
particular investor. The rating agency guidelines
described above also do not address the likelihood
that an owner of the AMPS will be able to sell suc
shares in an auction or otherwise. The ratings are

based on current information furnished to Moody's S&P by the Fund and the Investment Manager and information obtained from other sources. The ratin may be changed, suspended or withdrawn from other sources in the rating agencies' discretion as a result of changes in, or the unavailability of, su information. See 'Description of AMPS -- Rating Agency Guidelines.'

USE OF PROCEEDS............................. The net proceeds of the AMPS will be invested in accordance with the policies set forth under 'Investment Objectives and Policies.' The Fund estimates that the net proceeds of this offering w be fully invested in accordance with the Fund's investment objectives and

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policies within four months of the completion of t offering.

INVESTMENT OBJECTIVES AND POLICIES........... Our primary investment objective is high current income through investment in real estate securitie Capital appreciation is a secondary investment objective. Our investment objectives and certain investment policies are considered fundamental and may not be changed without stockholder approval. S 'Investment Objectives and Policies.'

Under normal market conditions, the Fund seeks to achieve its investment objectives by investing at least 90% of its total assets in common stocks, preferred stocks and other equity securities issue by real estate companies, such as REITs. At least of the Fund's total assets will be invested in inc producing equity securities issued by high quality REITs, and substantially all of the equity securit of real estate companies in which we intend to inv are traded on a national securities exchange or in the over-the-counter market. High quality REITs ar companies that, in the opinion of the Investment Manager, offer excellent prospects for consistent, above-average revenue and earnings growth. To determine whether a company is of high quality, th Investment Manager generally looks to a strong rec of earnings growth, as well as to a company's curr ratio of debt to capital and the quality of its management. All of the REITs in which the Fund wil invest will have a market capitalization greater t $100 million. A real estate company generally deri at least 50% of its revenue from real estate or ha at least 50% of its assets in real estate. A REIT a company dedicated to owning, and usually operati income producing real estate, or to financing real estate. REITs are generally not taxed on income distributed to stockholders provided they distribu to their stockholders substantially all of their income and otherwise comply with the requirements the Internal Revenue Code of 1986, as amended (the 'Code'). As a result, REITs generally pay relative high dividends (as compared to other types of companies) and the Fund intends to use these REIT dividends in an effort to meet its objective of hi current income. The Fund may invest up to 10% of o total assets in debt securities

issued or guaranteed by real estate companies. The Fund currently invests approximately 19.86% of its total assets in common stocks of real estate companies and approximately 79.74% of its total assets in preferred stocks of real estate companie although the actual percentage of common and preferred stocks in the Fund's investment portfoli may vary over time. The Fund will not invest more than 20% of the Fund's total assets in preferred stock or debt securities rated below investment gr (commonly known as 'junk bonds') or unrated securities of comparable quality. Preferred stock debt securities will be considered to be investmen grade if, at the time of investment, such security has a rating of 'BBB- ' or higher by S&P, 'Baa3' o higher by Moody's or an equivalent rating by a nationally recognized statistical rating agency. T Investment Manager may also invest in preferred st or debt securities which are unrated but which, in the opinion of the Investment Manager, are determi to be of equivalent quality. All of the Fund's investments will be in securities of U.S. issuers we will generally not invest more than 10% of the Fund's total assets in the securities of one issue There can be no assurance that the Fund's investme objectives will be achieved. See 'Investment Objectives and Policies.'

INVESTMENT MANAGER........................... Cohen & Steers Capital Management, Inc. (the 'Investment Manager') is the investment manager of the Fund pursuant to an Investment Management Agreement. The Investment Manager, which was forme in 1986, is a leading firm specializing in the management of real estate securities portfolios an as of September 30, 2004 had approximately $16.1 billion in assets under management. Its clie include pension plans, endowment funds and mutual funds, including some of the largest open-end and closed-end real estate funds. The Investment Manag whose principal business address is 757 Third Aven New York, New York 10017, is also responsible for providing administrative services, and assisting t Fund with operational needs pursuant to an administration agreement (the 'Administration Agreement'). In accordance with the terms of the Administration Agreement, the Fund has entered int an agreement with State Street Bank and

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Trust Company ('State Street Bank') to perform certain administrative functions subject to the supervision of the Investment Manager (the 'Sub-Administration Agreement'). See 'Management o the Fund -- Administration and Sub-Administration Agreement.'

USE OF LEVERAGE............................ The Fund may, but is not required to, use financia leverage for investment purposes. In addition to issuing the AMPS, the Fund may borrow money or iss debt securities such as commercial paper or notes. Any such borrowings will have seniority over the A and any other outstanding shares of preferred stoc and payments to holders of the AMPS and any other outstanding shares of preferred stock in liquidati or otherwise will be subject to the prior payment any borrowings. Since the Investment Manager's fee based upon a percentage of the Fund's managed asse which include assets attributable to any outstandi leverage, the investment management fee will be higher if the Fund is leveraged and the Investment Manager will have an incentive to be more aggressi and leverage the Fund. See 'Use of Leverage.'

PRINCIPAL INVESTMENT RISKS.................. Risk is inherent in all investing. Therefore, befo investing in the AMPS and the Fund you should consider certain risks carefully. The primary risk of investing in the AMPS are:

the Fund will not be permitted to declare dividends or other distributions with respect t AMPS or redeem your AMPS unless the Fund meets certain asset coverage requirements required by the 1940 Act and the rating agencies;

if you try to sell your AMPS between auctions y
may not be able to sell any or all of your shar
or you may not be able to sell them for $25,000
per share or $25,000 per share plus accumulated
but unpaid dividends, if any, whether or not
earned or declared. If the Fund has designated
special rate period, changes in interest rates
could affect the price you would receive if you
sold your shares in the secondary market. You m
transfer your shares outside of auctions only t
or through a broker-dealer that has entered int
an agreement with the auction agent and the Fun
or other person as the Fund permits.

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if an auction fails, you may not be able to sel
some or all of your AMPS;

you may receive less than the price you paid fo
your AMPS if you sell them outside of the aucti
especially when market interest rates are risin

a rating agency could downgrade the rating
assigned to the AMPS, which could affect liquid

the Fund may be forced to redeem your AMPS to m
regulatory or rating agency requirements or may
voluntarily redeem your shares in certain
circumstances;

restrictions imposed by the 1940 Act and by rat
agencies on the declaration and payment of
dividends to the holders of the Fund's Common
Shares and AMPS and any other outstanding share
of preferred stock might impair the Fund's abil
to maintain its qualification as a regulated
investment company for federal income tax
purposes;

in certain circumstances the Fund may not earn
sufficient income from its investments to pay
dividends on the AMPS;

the AMPS will be junior to any borrowings;

any borrowings may constitute a substantial lie
and burden on the AMPS by reason of its priorit
claim against the income of the Fund and agains
the net assets of the Fund in liquidation;

if the Fund leverages through borrowings, the F
may not be permitted to declare dividends or ot
distributions with respect to the AMPS or purch
the AMPS unless at the time thereof the Fund me
certain asset coverage requirements and the
payments of principal and of interest on any su
borrowings are not in default;

the value of the Fund's investment portfolio ma
decline, reducing the asset coverage for the AM
and

if an issuer of a common stock in which the Fun
invests experiences financial difficulties or i
an issuer's preferred stock or debt security is
downgraded or defaults or if an issuer in which
the Fund invests is affected by other adverse
market factors, there may be

a negative impact on the income and/or asset va
of the Fund's investment portfolio. See 'Risk
Factors -- Risks of Investing in AMPS.'

In addition, although the offering of the AMPS is
conditioned upon receipt of ratings of 'AAA' from
and 'Aaa' from Moody's for the AMPS, there are
additional risks related to the investment policie
of and an investment in the Fund, such as:

Real Estate Risks. Since the Fund concentrate its
assets in the real estate industry, the Fund's
investments will be closely linked to the performa
of the real estate markets. Property values may fa
due to increasing vacancies or declining rents
resulting from economic, legal, cultural or
technological developments. REIT prices also may d
because of the failure of borrowers to pay their
loans and poor management. Many REITs utilize
leverage, which increases investment risk and coul
adversely affect a REIT's operations and market va
in periods of rising interest rates as well as ris
normally associated with debt financing. In additi
there are specific risks associated with particula
sectors of real estate investments such as retail,
office, hotel, healthcare, and multifamily
properties.

The Fund may also invest in preferred stocks and d
securities of real estate companies. These securit

also are more sensitive to changes in interest rat than common stocks. When interest rates rise, the value of preferred stocks and debt securities may fall. See 'Risk Factors -- General Risks of Invest in the Fund -- General Real Estate Risks.'

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

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securities. See 'Risk Factors -- General Risks of Investing in the Fund -- Lower-Rated Securities Risk.'

Tax Risk. The Fund's investment program and the ta treatment of Fund distributions may be affected by Internal Revenue Service ('IRS') interpretations o the Code and future changes in tax laws and regulations. In particular, the provisions that currently apply to the favorable tax treatment of qualified dividend income are scheduled to expire December 31, 2008 unless future legislation is pas to make the provisions effective beyond this date. The Fund does not expect a significant portion of Fund's distributions to be derived from qualified dividend income. See 'Risk Factors -- General Risk of Investing in the Fund -- Tax Risk.' See also 'U Federal Taxation.'

Non-Diversified Status. Because we, as a non-diversified investment company, may invest in smaller number of individual issuers than a diversified investment company, an investment in t Fund presents greater risk to you than an investme in a diversified company. We intend to comply with the diversification requirements of the Code applicable to regulated investment companies. See 'Risk Factors -- General Risks of Investing in the Fund -- Non-Diversified Status.' See also 'U.S.

Federal Taxation' in the SAI.

Anti-Takeover Provisions. Certain provisions of th Fund's Articles of Incorporation (which, as hereaf amended, restated or supplemented from time to tim and together with the Articles Supplementary, is referred to as the 'Charter') and By-Laws may have the effect of limiting the ability of other entiti or persons to acquire control of the Fund or to change the Fund's structure. These provisions may also have the effect of depriving you of an opportunity to redeem your AMPS. These include provisions for staggered terms of office for directors, super-majority voting requirements for merger, consolidation, liquidation, termination an asset sale transactions, amendments to the Charter and conversion to open-end status. See 'Risk Factors -- Anti-Takeover Provisions.' See also 'Description of Common Shares' and 'Certain Provisions of the Charter and By-Laws.'

Market Disruption Risk. The aftermath of the war i Iraq and the continuing occupation of Iraq, instability in

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the Middle East and terrorist attacks in the U.S. around the world may have resulted in market volatility and may have long-term effects on the U and worldwide financial markets and may cause furt economic uncertainties in the U.S. and worldwide. These events could also adversely affect individua issuers and securities markets, interest rates, auctions and auction participants, secondary tradi ratings, credit risk, inflation, deflation and oth factors relating to the AMPS. The Fund does not kn how long the securities markets will continue to b affected by these events and cannot predict the effects of the occupation or similar events in the future on the U.S. economy and securities markets. See 'Risk Factors -- General Risks of Investing in the Fund -- Market Disruption Risk.'

For further discussion of the risks associated wit investing in the AMPS and the Fund, see 'Risk Factors.'

DIVIDENDS AND RATE PERIODS.................. The table below shows the dividend rate, the divid payment date and the number of days for the initia rate period on the AMPS offered in this Prospectus

For subsequent dividend periods, the AMPS will pay dividends based on a rate set at auctions normally held every seven days. In most instances, dividend are payable on the first business day following th end of the rate period. The rate set at auction wi not exceed the applicable maximum rate.

The dividend payment date for special rate periods will be set out in the notice designating a specia rate period. Dividends on the AMPS will be cumulat from the date the shares are first issued and will paid out of legally available funds.

	INITIAL DIVIDEND RATE	DIVIDEND PAYMENT DATE FOR INITIAL RATE PERIOD	DA
Series M7..	2.05%	November 30, 2004	

The Fund may, subject to certain conditions, designate special rate periods of more than seven days.

The Fund may not designate a special rate period unless sufficient clearing bids were made in the m recent auction. In addition, full cumulative dividends, any amounts due with respect to mandato redemptions and

any additional dividends payable prior to such dat must be paid in full. The Fund also must have received confirmation from Moody's and S&P or any substitute rating agency that the proposed special rate period will not adversely affect such agency' then-current rating on the AMPS and the lead Broker-Dealer designated by the Fund, initially Merrill Lynch, must not have objected to declarati of a special rate period.

See 'Description of AMPS -- Dividends and Rate Periods' and ' -- Designation of Special Rate Periods' and 'The Auction.'

SECONDARY MARKET TRADING....................	Broker-dealers may, but are not obligated to, maintain a secondary trading market in the AMPS outside of auctions. There can be no assurance tha secondary market will provide owners with liquidit You may transfer shares outside of auctions only t or through a broker-dealer that has entered into a agreement with the auction agent and the Fund, or other persons as the Fund permits.
INTEREST RATE TRANSACTIONS..................	In order to seek to reduce the interest rate risk inherent in the Fund's underlying investments and capital structure, the Fund may enter into interes rate swap or cap transactions. The use of interest rate swaps and caps is a highly specialized activi that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest ra swap, the Fund would agree to pay to the other par to the interest rate swap (which is known as the 'counterparty') a fixed rate payment in exchange f the counterparty agreeing to pay to the Fund a variable rate payment that is intended to approxim the Fund's variable rate payment obligation on the AMPS and any other outstanding shares of preferred stock. The payment would be based on the notional amount of the swap. In an interest rate cap, the F would pay a premium to the counterparty to the interest rate cap and, to the extent that a specif variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments the difference based on the notional amount of suc cap. If the counterparty to an interest rate swap cap defaults, the Fund would be obligated to make payments that it had intended to avoid. Depending the general state of short-term interest rates and the returns on the Fund's portfolio

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	securities at that point in time, this default cou negatively impact the Fund's ability to make divid payments on the AMPS and any other outstanding sha of preferred stock. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that t Fund will not be able to obtain a replacement transaction or that the terms of the replacement w not be as favorable as on the expiring transaction If this occurs, it could have a negative impact on the Fund's ability to make dividend payments on th

AMPS. If the Fund fails to maintain the required asset coverage on the AMPS and any other outstandi shares of preferred stock or fails to comply with other covenants, the Fund may be required to redee some or all of these shares. Such redemption likel would result in the Fund seeking to terminate earl all or a portion of any swap or cap transaction. Early termination of the swap could result in a termination payment by or to the Fund. Early termination of a cap could result in a termination payment to the Fund. The Fund would not enter into interest rate swap or cap transactions having a notional amount that exceeded the outstanding amou of the AMPS and any other outstanding shares of preferred stock. See 'How the Fund Manages Risk -- Interest Rate Transactions' for additional information.

ASSET MAINTENANCE........................... Under the Fund's Articles Supplementary for the AM which establishes and fixes the rights and preferences of the shares of the AMPS and the respective Articles Supplementary for the Series T Series W, Series TH, Series F and Series M28 AMPS, the Fund must maintain:

asset coverage of the AMPS and the Series T, Series W, Series TH, Series F and Series M28 AM as required by the rating agency or agencies rating each of those AMPS, and

asset coverage of at least 200% with respect to senior securities that are stock, including the and the Series T, Series W, Series TH, Series F and Series M28 AMPS.

In the event that the Fund does not maintain or cu these coverage tests, some or all of the AMPS will subject to mandatory redemption. See 'Description AMPS -- Redemption.'

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Based on the composition of the Fund's portfolio a of November 8, 2004, the asset coverage of the AMP (and the Series T, Series W, Series TH, Series F a Series M28 AMPS) as measured pursuant to the 1940 would be approximately 286% if the Fund were to is all of the AMPS offered in this Prospectus, representing approximately 35% of the Fund's manag assets (as defined below).

REDEMPTION.................................. The Fund does not expect to and ordinarily will no redeem the AMPS. However, under the Articles Supplementary, it may be required to redeem the AM in order, for example, to meet an asset coverage ratio or to correct a failure to meet a rating age guideline in a timely manner. The Fund may also voluntarily redeem the AMPS without the consent of holders of the AMPS under certain conditions. See 'Description of AMPS -- Redemption.'

LIQUIDATION PREFERENCE...................... The liquidation preference (that is, the amount th Fund must pay to holders of the AMPS if the Fund i liquidated) for the AMPS will be $25,000 per share plus accumulated but unpaid dividends, if any, whether or not earned or declared.

VOTING RIGHTS............................... The 1940 Act requires that holders of the AMPS and the holders of any other series of outstanding preferred stock of the Fund, voting together as a separate class, have the right to:

elect at least two directors at all times, and

elect a majority of the directors if at any tim the Fund fails to pay dividends on the AMPS, or other series of preferred stock of the Fund, fo two full years and will continue to be so represented until all dividends in arrears have been paid or otherwise provided for.

The holders of the AMPS, and the holders of any ot series of preferred stock of the Fund, will vote a separate class or series on other matters as requi under the Fund's Charter, the 1940 Act and Marylan law. On all other matters, holders of the AMPS wil vote together with the holders of Common Shares an each share of any other series of preferred stock the Fund. Each Common Share, each share of the AMP and each share of any other series of preferred st of the Fund is entitled to one vote per share.

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FEDERAL INCOME TAXATION..................... The distributions with respect to the AMPS (other than distributions in redemption of the AMPS subje to Section 302(b) of the Code) will constitute dividends to the extent of the Fund's current or accumulated earnings and profits, as calculated fo federal income tax purposes. Such dividends genera will, except in the case of distributions of qualified dividend income and net capital gains, b

taxable as ordinary income to holders. Distributio
of net capital gain that are designated by the Fun
as capital gain dividends will be treated as
long-term capital gains in the hands of holders
receiving such distributions. The IRS currently
requires that a regulated investment company that
two or more classes of stock allocate to each such
class proportionate amounts of each type of its
income (such as ordinary income, capital gains,
dividends qualifying for the dividends received
deduction, qualified dividend income,
interest-related dividends and short-term capital
gain dividends) based upon the percentage of total
dividends distributed to each class for the tax ye
Accordingly, the Fund intends each year to allocat
capital gain dividends, dividends qualifying for t
dividends received deduction, dividends derived fr
qualified dividend income, interest-related divide
and short-term capital gain dividends, if any,
between its Common Shares, the AMPS and the
Series T, Series TH, Series F, Series W and
Series M28 AMPS in proportion to the total dividen
paid to each class or series during or with respec
to such year. The Fund does not expect a significa
portion of Fund distributions to be eligible for t
dividends received deduction or derived from
qualified dividend income. See 'U.S. Federal
Taxation.'

CUSTODIAN, AUCTION AGENT, TRANSFER AGENT, DIVIDEND PAYING AGENT AND REGISTRAR.......... State Street Bank and Trust Company acts as the Fund's custodian. The Bank of New York will act as auction agent, transfer agent, dividend paying age and registrar for the AMPS.

FINANCIAL HIGHLIGHTS

Information contained in the table below under the heading 'Per Share Operating Performance' and 'Ratios/Supplemental Data' shows the operating performance of the Fund for the periods indicated.

The following table includes selected data for a common share outstanding throughout each period and other performance information derived from the Fund's Financial Statements included in the SAI dated November 17, 2004. The table should be read in conjunction with the Financial Statements and notes thereto.

PER SHARE OPERATING PERFORMANCE:	FOR THE SIX MONTHS ENDED JUNE 30, 2004 (UNAUDITED)	FOR THE YEAR ENDED DECEMBER 31, 2003 (AUDITED)
Net asset value per common share, beginning of period.....	$18.43	$13.25
Income from investment operations:		
Net investment income................................	0.55(b)	1.04(b)
Net realized and unrealized gain/(loss) on investments and interest rate swap transactions..................	0.24	5.69
Total income from investment operations............	0.79	6.73
Less dividends and distributions to preferred shareholders from:		
Net investment income................................	(0.05)	(0.07)
Net realized gain on investments......................	--	(0.03)
Total dividends and distributions to preferred shareholders....................................	(0.05)	(0.10)
Total from investment operations applicable to common shares..................................	0.74	6.63
Less: Offering and organization costs charged to paid-in capital -- common shares..........................	--	--
Offering and organization costs charged to paid-in capital -- preferred shares........................	--	(0.02)
Preferred Offering Cost Adjustment...................	--(c)	--
Dilutive effect of common share offering.............	--	--
Total offering and organization costs..............	--	(0.02)
Less dividends and distributions to common shareholders from:		
Net investment income................................	(0.68)	(0.76)
Net realized gain on investments......................	--	(0.41)
Tax return of capital................................	--	(0.26)
Total dividends and distributions to common shareholders....................................	(0.68)	(1.43)
Net increase/(decrease) in net asset value per common share..	0.06	5.18
Net asset value, per common share, end of period..........	$18.49	$18.43
Market value, per common share, end of period............	$16.70	$17.85
Net asset value total return(d).........................	4.26%(e)	52.61%
Market value return(d)..................................	-2.77%(e)	50.07%

(a) Commencement of operations.

(b) Calculation based on average shares outstanding.

(c) Less than $.005 per share. See Note 5 to the financial statements.

(d) Total market value return is computed based upon the New York Stock Exchange market price of the Fund's shares and excludes the effects of brokerage commissions that would have been paid by investors. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Net asset value total return measures the changes in value over the period indicated, taking into account dividends as reinvested.

(e) Not annualized.

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FINANCIAL HIGHLIGHTS -- (CONTINUED)

RATIOS/SUPPLEMENTAL DATA:	FOR THE SIX MONTHS ENDED JUNE 30, 2004 (UNAUDITED)	FOR THE YEAR ENDED DECEMBER 31, 2003 (AUDITED)	FE DE
Net assets applicable to common shares, end of period (in millions)	$ 718.4	$ 716.1	
Ratio of expenses to average daily net assets applicable to common shares (before expense reduction)(f)	1.53%(c)	1.57%	
Ratio of expenses to average daily net assets applicable to common shares (net of expense reduction)(f)	1.06%(c)	1.09%	
Ratio of net investment income to average daily net assets applicable to common shares (before expense reduction)(f)	5.53%(c)	6.39%	
Ratio of net investment income to average daily net assets applicable to common shares (net of expense reduction)(f)	6.00%(c)	6.88%	
Ratio of expenses to average daily managed assets (before expense reduction)(b,f)	1.04%(c)	1.04%	

Ratio of expenses to average daily managed assets (net of expense reduction)(b,f)	0.72%(c)	0.72%
Portfolio turnover rate	2.05%(d)	20.51%
PREFERRED SHARES:		
Liquidation value, end of period (in 000's)	$340,000	$340,000
Total shares outstanding (in 000's)	14	14
Asset coverage per share	$ 77,827	$ 77,653
Liquidation preference per share	$ 25,000	$ 25,000
Average market value per share(e)	$ 25,000	$ 25,000

(a) Commencement of operations.

(b) Average daily managed assets represent the net assets applicable to common shares plus the liquidation preference of preferred shares.

(c) Annualized.

(d) Not annualized.

(e) Based on weekly prices.

(f) Ratios do not reflect the effects of dividend payments to preferred shareholders.

THE FUND

The Fund is a non-diversified, closed-end management investment company. The Fund was organized as a Maryland corporation on August 22, 2001 and is registered as an investment company with the Securities and Exchange Commission under the Investment Company Act of 1940 (the '1940 Act'). The Fund issued an aggregate of 34,000,000 Common Shares, par value $.001 per share, pursuant to the initial public offering thereof and commenced its operations with the closing of this initial public offering on February 28, 2002. On March 8, 2002 and March 21, 2002, the Fund issued 2,000,000 and 1,700,000 additional Common Shares, respectively, in connection with a partial exercise by the underwriters of the overallotment option. On April 4, 2002, the Fund issued 2,800 Series T

AMPS, 2,800 Series W AMPS, 2,800 Series TH AMPS and 2,800 Series F AMPS. On September 15, 2003, the Fund issued 2,400 Series M28 AMPS. The Fund's Common Shares are traded on the NYSE under the symbol 'RQI.' The Fund's principal office is located at 757 Third Avenue, New York, New York 10017, and our telephone number is (212) 832-3232.

The following provides information about the Fund's outstanding shares as of November 17, 2004:

TITLE OF CLASS	AMOUNT AUTHORIZED	AMOUNT HELD BY THE FUND OR FOR ITS ACCOUNT	AMOUNT OUTSTANDING
Common Shares................................	99,982,640	0	38,856,074
Preferred Shares			
Series T AMPS............................	2,800	0	2,800
Series TH AMPS...........................	2,800	0	2,800
Series F AMPS............................	2,800	0	2,800
Series W AMPS............................	2,800	0	2,800
Series M28 AMPS..........................	2,400	0	2,400
Series M7 AMPS...........................	3,760	0	0

USE OF PROCEEDS

The Fund estimates that the net proceeds of this offering of the AMPS, after payment of the sales load and offering expenses, will be $92,664,481. The net proceeds of this offering will be invested in accordance with the policies set forth under 'Investment Objectives and Policies.' The Fund estimates that the net proceeds of this offering will be fully invested in accordance with our investment objectives and policies within four months of the completion of this offering. Pending such investment, those proceeds may be invested in U.S. Government securities or high quality, short-term money market instruments. See 'Investment Objectives and Policies.'

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CAPITALIZATION (UNAUDITED)

The following table sets forth the unaudited capitalization of the Fund as of November 8, 2004, and as adjusted to give effect to the issuance of the AMPS offered in this Prospectus.

	AS OF NOVEMBER 8, 2004	
	ACTUAL	AS ADJUSTED
	(UNAUDITED)	
Preferred Shares, $0.001 par value, $25,000		

liquidation value; 13,600 shares authorized (2,800 Series T AMPS, 2,800 Series W AMPS, 2,800 Series TH AMPS, 2,800 Series F AMPS and 2,400 Series M28 AMPS outstanding) and 17,360 shares authorized after giving effect to the issuance of 3,760 shares of Series M7 AMPS	$ 340,000,000	$ 434,000,000
Common Shares, $.001 par value per share; As of November 8, 2004, 99,986,400 shares authorized (before giving effect to the issuance of 3,760 shares of Series M7 AMPS), 38,856,074 shares outstanding	$ 38,856	$ 38,856
Paid-in surplus	$ 541,280,114	$ 539,944,595
Distributions in excess of net investment income	$ (36,352,645)	$ (36,352,645)
Accumulated net realized gain (loss) from investment transactions	$ 6,948,125	$ 6,948,125
Net unrealized appreciation (depreciation) of investments	$ 297,041,776	$ 297,041,776
Net assets applicable to common shares	$ 808,956,226	$ 807,620,707
Net assets, plus liquidation preference of Preferred Shares	$1,148,956,226	$1,241,620,707

As used in this Prospectus, unless otherwise noted, the Fund's 'managed assets' include assets of the Fund attributable to the AMPS and any other outstanding shares of preferred stock, with no deduction for the liquidation preference of such shares. For financial reporting purposes, however, the Fund is required to deduct the liquidation preference of the AMPS and any other outstanding shares of preferred stock from 'managed assets' so long as the AMPS and any other outstanding shares of preferred stock have redemption features that are not solely within the control of the Fund. In connection with the rating of the AMPS and any other outstanding shares of preferred stock, the Fund has established various portfolio covenants to meet third-party rating agency guidelines in its Charter. These covenants include, among other things, investment diversification requirements and requirements that investments included in the Fund's portfolio meet specific industry and credit quality criteria. Market factors outside the Fund's control may affect its ability to meet the criteria of third-party rating agencies set forth in the Fund's portfolio covenants. If the Fund violates these covenants, it may be required to cure the violation by redeeming all or a portion of the AMPS. For all regulatory purposes, the Fund's AMPS will be treated as stock (rather than indebtedness).

INVESTMENT OBJECTIVES AND POLICIES

GENERAL

Our primary investment objective is high current income through investment in real estate securities. Capital appreciation is a secondary investment objective. The Fund's investment objectives and certain other policies are fundamental and may not be changed without the approval of stockholders. Unless otherwise indicated, the Fund's investment policies are not fundamental and may be changed by the Board of Directors without the approval of stockholders, although the Fund has no current intention of doing so. The Fund has a fundamental investment policy of concentrating its investments in the U.S. real estate industry and not in any other industry. Under normal market conditions, the Fund will invest at least 90% of its total assets in common stocks, preferred stocks and other equity securities issued by real estate companies, such as REITs. At least 80% of our total assets will be invested in income producing equity securities issued by high quality REITs and substantially all of the equity securities of real estate companies in which the Fund intends to invest are traded on a national securities exchange or in the over-the-counter market. High quality REITs are companies that, in the opinion of the Investment Manager, offer excellent prospects for consistent, above-average revenue and earnings growth. To determine whether a company is of high quality, the Investment Manager generally looks to a strong record of earnings growth, as well as to a company's current ratio of debt to capital and the quality of its management. All of the REITs in which the Fund will invest will have a market capitalization greater than $100 million. The Fund may invest up to 10% of its total assets in debt securities issued or guaranteed by real estate companies. We will not invest more than 20% of its total assets in preferred stock or debt securities rated below investment grade (commonly known as 'junk bonds') or unrated securities of comparable quality. Preferred stock or debt securities will be considered investment grade if, at the time of investment, it is rated 'BBB- ' or higher by S&P, 'Baa3' or higher by Moody's or an equivalent rating by a nationally recognized statistical rating agency, or is unrated but judged to be of comparable quality by the Investment Manager. Preferred stock or debt securities of below investment grade (BB/Ba or below) are commonly referred to as 'junk bonds.' The Investment Manager may also invest in preferred stock or debt securities which are unrated but which, in the opinion of the Investment Manager, are determined to be of equivalent quality. See Appendix A in the SAI for a description of bond ratings. These two policies are fundamental and cannot be changed without the approval of a majority of the Fund's voting securities, as defined in the 1940 Act, as amended. The Fund will invest only in securities of U.S. issuers and generally will not invest more than 10% of the Fund's total assets in the securities of one issuer.

The Fund will not enter into short sales or invest in derivatives, except as described in this Prospectus in connection with the interest rate swap or interest rate cap transactions. See 'How the Fund Manages Risk -- Interest Rate Transactions.' There can be no assurance that the Fund's investment objectives will be achieved.

INVESTMENT STRATEGIES

In making investment decisions on behalf of the Fund, the Investment Manager relies on a fundamental analysis of each company. The Investment Manager reviews each company's potential for success in light of the company's current financial condition, its industry and sector position, and economic and market conditions. The Investment Manager also evaluates a number of factors, including growth potential, earnings estimates and the quality of management.

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 the Fund's investment policies, a real estate company is one that:

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 in such real estate.

Under normal market conditions, the Fund will invest at least 90% of its total assets in the equity securities of real estate companies. These equity securities can consist of:

common stocks (including REIT shares);

preferred stocks;

rights or warrants to purchase common and preferred stocks; and

securities convertible into common and preferred stocks where the conversion feature represents, in the Investment Manager's view, a significant element of the securities' value.

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 of REITs. A REIT is a company dedicated to owning, and usually operating, income producing real estate, or to financing real estate. REITs pool investors' funds for investment primarily in income producing real estate or real estate-related loans or interests. A REIT is not taxed on income distributed to stockholders if, among other things, it distributes to its stockholders 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 and we intend to use these REIT dividends in an effort to meet the current income goal of our investment objectives.

REITs can generally be classified as Equity REITs, Mortgage REITs and Hybrid REITs. Equity REITs, which invest the majority of their assets directly in real property, derive their income primarily from rents. Equity REITs can also realize capital gains by selling properties that have appreciated in value. Mortgage REITs, which invest the majority of their assets in real estate mortgages, derive their income primarily from interest payments. 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.

Preferred Stocks. Preferred stocks 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 stock before paying any dividends on its common stock. Preferred stockholders usually have no right to vote for corporate directors or on other matters. Under current market conditions, the Investment Manager invests approximately 19.86% of the Fund's total assets in common shares of real estate companies and approximately 79.74% in preferred shares of real estate companies. The actual percentage of common and preferred shares in our investment portfolio may vary over time based on the Investment Manager's assessment of market conditions.

Debt Securities. The Fund may invest a maximum of 10% of its total assets in investment grade and non-investment grade debt securities issued or guaranteed by real estate companies.

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Lower-rated Securities. The Fund will not invest more than 20% of its total assets in preferred stock and debt securities rated below investment grade (commonly known as 'junk bonds') and equivalent unrated securities of comparable quality. Securities rated non-investment grade (lower than 'BBB- ' by S&P or lower than 'Baa3' by Moody's) are sometimes referred to as 'high yield' or 'junk' bonds. The Fund may only invest in high yield securities that are rated 'CCC' or higher by S&P, or rated 'Caa' or higher by Moody's, or unrated securities determined by the Investment Manager to be of comparable quality. The issuers of these securities have a currently identifiable vulnerability to default and such issues may be in default or there may be present elements of danger with respect to principal or interest. The Fund will not invest in securities that are in default at the time of purchase. For a description of bond ratings, see Appendix A of the SAI.

Defensive Position. When the Investment Manager believes that market or general economic conditions justify a temporary defensive position, we may deviate from our investment objectives and invest all or any portion of its assets in investment grade debt securities, without regard to whether the issuer is a real estate company. When and to the extent, we assume a temporary defensive position, we may not pursue or achieve our investment objectives.

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 we may invest our cash reserves will generally consist of obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities and such obligations that are subject to repurchase agreements and commercial paper. See 'Additional Information about Fund Investment Objectives and Policies' in the SAI.

USE OF LEVERAGE

The Fund may issue other preferred shares, in addition to the AMPS and the outstanding Series T, Series W, Series TH, Series F and Series M28 AMPS, or borrow or issue short-term debt securities to increase its assets available for investment. The Fund is authorized to issue preferred shares, borrow or issue debt obligations. Before issuing such preferred shares to increase its assets available for investment, the Fund must have received confirmation from Moody's and S&P or any substitute rating agency that the proposed issuance will not adversely affect such rating agency's then-current rating on the AMPS and any other outstanding shares of preferred stock. The Fund must also comply with certain asset coverage requirements under the 1940 Act. See 'Description of

AMPS -- Rating Agency Guidelines.' The Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of the Fund's holdings. When the Fund leverages its assets, the fees paid to the Investment Manager for investment management services will be higher than if the Fund did not borrow because the Investment Manager's fees are calculated based on the Fund's managed assets, which include the liquidation preference of any preferred shares, including the AMPS, or any outstanding borrowings. Consequently, the Fund and the Investment Manager may have differing interests in determining whether to leverage the Fund's assets.

The Fund's use of leverage is premised upon the expectation that the Fund's preferred share dividends or borrowing cost will be lower than the return the Fund achieves on its investments

with the proceeds of the issuance of preferred shares or borrowing. Such difference in return may result from the Fund's higher credit rating or the short-term nature of its borrowing compared to the long-term nature of its investments. Since the total assets of the Fund (including the assets obtained from leverage) will be invested in the higher yielding portfolio investments or portfolio investments with the potential for capital appreciation, holders of Common Shares will be the beneficiaries of the incremental return. Should the differential between the underlying assets and cost of leverage narrow, the incremental return 'pick up' will be reduced. Furthermore, if long-term rates rise or the Fund otherwise incurs losses on its investments, the Fund's net asset value attributable to its common shares will reflect the decline in the value of portfolio holdings resulting therefrom.

To the extent the income or capital appreciation derived from securities purchased with funds received from leverage exceeds the cost of leverage, the Fund's return to the holders of Common Shares will be greater than if leverage had not been used. Conversely, if the income or capital appreciation from the securities purchased with such funds is not sufficient to cover the cost of leverage or if the Fund incurs capital losses, the return of the Fund to holders of Common Shares will be less than if leverage had not been used. The Investment Manager may determine to maintain the Fund's leveraged position if it expects that the long-term benefits to the Fund's holders of Common Shares of maintaining the leveraged position will outweigh the current reduced return. Capital raised through the issuance of preferred shares or borrowing will be subject to dividend payments or interest costs that may or may not exceed the income and appreciation on the assets purchased. The Fund also may be required to maintain minimum average balances in connection with borrowings or to pay a commitment or other fee to maintain a line of credit; either of these requirements will increase the cost of borrowing over the stated interest rate.

The Fund may be subject to certain restrictions on investments imposed by guidelines of one or more nationally recognized rating organizations which may issue ratings for the AMPS, other preferred shares or short-term debt instruments issued by the Fund. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. Certain types of borrowings may result in the Fund being subject to covenants in credit agreements, including those relating to asset coverage, borrowing base and portfolio composition requirements and additional covenants.

The Fund may also be required to pledge its assets to the lenders in connection with certain types of borrowing. The Investment Manager does not anticipate that these covenants or restrictions will adversely affect its ability to manage the Fund's portfolio in accordance with the Fund's investment objective and policies. Due to these covenants or restrictions, the Fund may be forced to liquidate investments at times and at prices that are not favorable to the Fund, or the Fund may be forced to forgo investments that the Investment Manager otherwise views as favorable.

If and the extent to which the Fund employs leverage in addition to the AMPS and the outstanding Series T, Series W, Series TH, Series F and Series M28 AMPS will depend on many factors, the most important of which are investment outlook, market conditions and interest rates.

RISK FACTORS

Risk is inherent in all investing. Before investing you should consider carefully the following risks that you assume when you invest in the AMPS.

RISKS OF INVESTING IN AMPS

Leverage Risk. The Fund uses financial leverage for investment purposes by issuing preferred shares, including the AMPS. It is currently anticipated that, taking into account the AMPS being offered in this Prospectus, the amount of leverage will represent approximately 35% of the Fund's managed assets (as defined below).

The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. These include the possibility of higher volatility of the net asset value of the Fund's Common Shares and the asset coverage of the AMPS and the Series T, Series W, Series TH, Series F and Series M28 AMPS. As long as the AMPS and the Series T, Series W, Series TH, Series F and Series M28 AMPS are outstanding, the Fund does not intend to utilize other forms of leverage.

Because the fees paid to the Investment Manager will be calculated on the basis of the Fund's managed assets (which equals the aggregate net asset value ('NAV') of the Common Shares plus the liquidation preference of the AMPS and the Fund's other outstanding shares of preferred stock), the fee will be higher when leverage is utilized, giving the Investment Manager an incentive to utilize leverage.

Interest Rate Risk. The Fund issues preferred shares, such as the AMPS, which pay dividends based on short-term interest rates. The Fund purchases real estate equity securities that pay dividends that are based on the performance of the issuing companies. The Fund also may buy real estate debt securities that pay interest based on longer-term yields. These dividends and interest payments are typically, although not always, higher than short-term interest rates. Real estate company dividends, as well as long-term and short-term interest rates, fluctuate. If short-term interest rates rise, dividend rates on the AMPS may rise so that the amount of dividends to be paid to stockholders of the AMPS exceeds the income from the portfolio securities. Because income from the Fund's entire investment portfolio (not just the portion of the portfolio purchased with the proceeds of the AMPS offering) is available to pay dividends on the AMPS, however, dividend rates on the AMPS would need to greatly exceed the Fund's net portfolio income before the Fund's ability to pay dividends on the AMPS would be jeopardized. If long-term interest rates rise, this could negatively impact the value of the Fund's investment portfolio, reducing the amount of assets serving as asset coverage for the AMPS. The Fund anticipates entering into interest rate swap or cap transactions with the intent to reduce or eliminate the risk posed by an increase in short-term interest rates. There is no guarantee that the Fund will engage in these transactions or that these transactions will be successful in reducing or eliminating interest rate risk. See 'How the Fund Manages Risk.'

Auction Risk. You may not be able to sell your AMPS at an auction if the auction fails, i.e., if there are more AMPS offered for sale than there are buyers for those shares. Also, if you place hold orders (orders to retain your AMPS) at an auction only at a specified rate, and that bid rate exceeds the rate set at the auction, you will not retain your AMPS. Additionally, if you buy shares or elect to retain shares without specifying a rate below which you would not wish to continue to hold those shares, and the auction sets a below-market rate, you may receive a lower rate of return on your shares than the market rate. Finally, the dividend period may be changed, subject

to certain conditions and with notice to the holders of the AMPS, which could also affect the liquidity of your investment. See 'Description of AMPS' and 'The Auction.'

Secondary Market Risk. If you try to sell your AMPS between auctions, you may not be able to sell any or all of your shares, or you may not be able to sell them for $25,000 per share or $25,000 per share plus accumulated but unpaid dividends, if any, whether or not earned or declared. If the Fund has designated a special rate period (a dividend period of more than seven days in the case of the AMPS), changes in interest rates could affect the price you would receive if you sold your shares in the secondary market. You may transfer shares outside of auctions only to or through a broker-dealer that has entered into an agreement with the auction agent and the Fund or other person as the Fund permits. The Fund does not anticipate imposing significant restrictions on transfers to other persons. However, unless any such other person has entered into a relationship with a broker-dealer that has entered into a broker-dealer agreement with the Auction Agent, that person will not be able to submit bids at auctions with respect to the AMPS. Broker-dealers that maintain a secondary trading market for the AMPS are not required to maintain this market, and the Fund is not required to redeem shares either if an auction or an attempted secondary market sale fails because of a lack of buyers. The AMPS are not registered on a stock exchange or the National Association of Securities Dealers Automated Quotations, Inc. ('NASDAQ') stock market. If you sell your AMPS to a broker-dealer between auctions, you may receive less than the price you paid for them, especially when market interest rates have risen since the last auction and during a special rate period. In addition, a broker-dealer may, in its own discretion, decide to sell the AMPS in the secondary market to investors at any time and at any price, including at prices equivalent to, below or above the liquidation preference of the AMPS.

Securities and Exchange Commission Inquiries. Merrill Lynch has advised the

Fund that it and certain broker-dealers and other participants in the auction rate securities markets, including both taxable and tax exempt markets, have received letters from the Securities and Exchange Commission requesting that each of them voluntarily conduct an investigation regarding their respective practices and procedures in those markets. Those broker-dealers are cooperating and expect to continue to cooperate with the Securities and Exchange Commission in providing the requested information. No assurance can be given as to whether the results of this process will affect the market for the AMPS or the auctions.

Ratings and Asset Coverage Risk. While it is a condition to the closing of the offering that S&P assigns a rating of 'AAA' and Moody's assigns a rating of 'Aaa' to the AMPS, the ratings do not eliminate or necessarily mitigate the risks of investing in the AMPS. In addition, Moody's, S&P or another rating agency then rating the AMPS could downgrade the AMPS, which may make your shares less liquid at an auction or in the secondary market. If a rating agency downgrades the AMPS, the dividend rate on the AMPS will be the applicable maximum rate based on the credit rating of the AMPS, which will be a rate higher than is payable currently on the AMPS. See 'Description of AMPS -- Rating Agency Guidelines' for a description of the asset maintenance tests the Fund must meet. The Fund may not redeem AMPS if such a redemption would cause the Fund to fail to meet regulatory or rating agency asset coverage requirements, and the Fund may not declare, pay or set apart for payment any dividend or other distribution if immediately thereafter the Fund would fail to meet regulatory asset coverage requirements.

Portfolio Security Risk. Portfolio security risk is the risk that an issuer of a security in which the Fund invests will not be able, in the case of common stocks, to make dividend distributions at the level forecast by the Fund's Investment Manager, or that the issuer becomes unable to meet its

obligation to pay fixed dividends at the specified rate, in the case of preferred stock, or to make interest and principal payments in the case of debt securities. Common stock is not rated by rating agencies and it is incumbent on the Investment Manager to select securities of real estate companies that it believes have the ability to pay dividends at the forecasted level. Preferred stock and debt securities may be rated. The Fund may invest up to 20% of its total assets in preferred stock or debt securities rated below investment grade (commonly known as 'junk bonds') by S&P or Moody's, or unrated securities considered to be of comparable quality by the Investment Manager. In general, lower-rated securities carry a greater degree of risk. If rating agencies lower their ratings of securities held in the Fund's portfolio, the value of those securities could decline, which would jeopardize the rating agencies' ratings of the AMPS. The failure of a company to pay common stock or preferred stock dividends, or interest payments, at forecasted or contractual rates, could have a negative impact on the Fund's ability to pay dividends on the AMPS and could result in the redemption of some or all of the AMPS.

Restrictions on Dividends and other Distributions. Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the Fund's Common Shares, the AMPS and the Series T, Series W, Series TH, Series F and Series M28 AMPS, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to maintain its qualification as a regulated investment company for federal income tax purposes.

While the Fund intends to redeem the Series T, Series W, Series TH, Series F and Series M28 AMPS, and the AMPS to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Code, there can be no assurance that such actions can be effected in time to meet the Code requirements. See 'U.S. Federal Taxation.'

GENERAL RISKS OF INVESTING IN THE FUND

We are a 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 we will achieve our investment objectives.

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

Stock Market Risk. Because prices of equity securities fluctuate from day-to-day, the value of our portfolio will vary based upon general market conditions.

General Risks of Securities Linked to the Real Estate Market. The Fund will not invest in real estate directly, but only in securities issued by real estate companies, including REITs. However, because of the Fund's policy of concentration in the securities of companies in the real estate industry, the Fund 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
- 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
- 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 Fund's portfolio securities may change at different rates compared to the value of portfolio securities 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., Americans with Disabilities Act and tax laws), 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 interest and principal on its debt 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 portfolio 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.

Real property investments are also subject to risks which are specific to the investment sector or type of property in which the real estate companies are investing.

Retail Properties. Retail properties are affected by the overall health of the applicable 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 entitled to terminate their leases if an anchor tenant ceases operations at such property.

Office Properties. 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 is 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. Contrarily, it may be difficult to terminate an ineffective operator of a hotel property subsequent to a foreclosure of such 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 competition in terms of appearance, reputation, quality and cost of care with similar properties on a local and regional basis.

These 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 Properties. The value and successful operation of a multifamily 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, types of services provided by the property, the level of mortgage rates, presence of competing properties, the relocation of tenants to new projects with better amenities, adverse economic conditions in the locale, the amount of rent charged, and oversupply of units 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 future cash flows of such properties.

Insurance Issues. Certain of the portfolio 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 the portfolio companies. Moreover, there are certain types of extraordinary losses that may be uninsurable, or not economically insurable. Certain of the properties may be located in areas that are subject to earthquake activity for which insurance may not be maintained. Should a property sustain damage as a result of an earthquake, even if the portfolio company maintains earthquake insurance, the portfolio company may incur substantial losses due to insurance deductibles, co-payments on insured losses or uninsured losses. Should any type of uninsured loss occur, the portfolio company could lose its investment in, and anticipated profits and cash flows from, a number of properties and, as a result, impact the Fund's investment performance.

Credit Risk. REITs may be highly leveraged and financial covenants may affect the ability of REITs to operate effectively. The portfolio 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 repay all maturing debt outstanding.

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

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 portfolio 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 material environmental liability could have a material adverse effect on the results of operations and cash flow of any such portfolio company and, as a result, the amount available to make distributions on the shares could be reduced.

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 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 which purports to be a REIT and that the real estate company could fail to qualify as a REIT. In the event of any such unexpected failure to qualify as a REIT, the real estate company would be subject to corporate-level taxation, significantly reducing the return to the Fund on its investment in such company. 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 a borrower's or a lessee's ability to meet its obligations to the 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.

Preferred Stocks and Debt Securities Risk. In addition to the risks of equity securities and securities linked to the real estate market, preferred stocks and debt securities also are more sensitive to changes in interest rates than common stocks. When interest rates rise, the value of preferred stocks and debt securities may fall.

Lower-Rated Securities Risk. Lower-rated securities 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 the Fund's investment objectives may, to the extent the Fund is invested in lower-rated debt secu