

COHEN & STEERS QUALITY INCOME REALTY FUND INC  
Form N-CSR  
March 09, 2005

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)

757 Third Avenue, New York, NY  
(Address of principal executive offices)

10017  
(Zip code)

Robert H. Steers  
Cohen & Steers Capital Management, Inc.  
757 Third 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, 2004

Item 1. Reports to Stockholders.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

February 21, 2005

To Our Shareholders:

We are pleased to submit to you our report for the quarter and year ended December 31, 2004. The net asset value at that date was \$22.50 per common share. The total return, including income, for Cohen & Steers Quality Income Realty Fund and its relevant benchmarks were:

NET ASSET VALUE (a)		MARKET PRICE (a)	
QUARTER- ENDED	YEAR- ENDED	QUARTER- ENDED	YEAR- ENDED
12/31/04	12/31/04	12/31/04	12/31/04
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### Cohen & Steers Quality Income Realty

Fund(b).....	15.3%	32.2%	18.0%	25.1%
NAREIT Equity REIT Index(c).....	15.2%	31.6%	15.2%	31.6%
Morgan Stanley REIT Preferred Index(d) ..	2.7%	7.3%	2.7%	7.3%

During the quarter, three \$0.115 share monthly dividends and one special dividend of \$0.08 per share were declared and paid. The special year-end dividend consisted of long and short-term capital gains of \$0.07 and \$0.01 per share, respectively.(e)

In addition, the fund's board of directors announced an increase of \$0.025 per common share in the fund's regular monthly distribution, raising the monthly distribution to \$0.14 per common share. The new monthly distribution rate represents a 22% increase to the prior monthly distribution rate. In connection with this increase, the fund's board of directors announced the adoption of a level rate distribution policy. The new distribution rate reflects both the increased investment income that the fund's investment manager believes the fund will earn and the decision by the board of directors to augment investment income with the fund's capital, which has increased significantly since the fund's initial public offering due to unrealized appreciation in the fund's portfolio

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- (a) As a closed-end investment company, the price of the fund's New York Stock Exchange-traded shares will be set by market forces and at times may deviate from the net asset value per share of the fund.
- (b) For the year, the fund averaged 80% REIT common stock and 20% preferred stock and other fixed income investments.
- (c) The NAREIT Equity REIT Index ('Equity REITs') is an unmanaged market-capitalization-weighted index of all tax-qualified Equity REITs listed on the NYSE, AMEX, and the Nasdaq that have 75% or more of their gross invested book assets invested directly or indirectly in the equity ownership of real estate.
- (d) The Morgan Stanley REIT Preferred Index is an unmanaged index of all exchange-traded perpetual preferred securities of equity REITs, weighted by capitalization and considered representative of real estate preferred stock performance.
- (e) Please note that distributions paid by the fund to shareholders are subject to recharacterization for tax purposes. The final tax treatment of these distributions is reported to shareholders after the close of each fiscal year.

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1

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### COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

investments. As of December 31, 2004, the fund had unrealized appreciation in its portfolio investments equivalent to \$9.16 per common share.

### INVESTMENT REVIEW

One year ago, in our year-end letter to shareholders, we shared our belief that REITs would experience 'a continuation of strong performance' as a result of strong expected economic fundamentals. We predicted that GDP would increase by at least 4% in 2004, creating 1.5 to 2.0 million jobs and leading to

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improving real estate fundamentals and accelerating cash flow growth rates for REITs. We are pleased to report that all of these predictions have been realized.

Additionally, we believe that investors of all types -- individual and institutional, in the United States and abroad -- continued to gravitate toward REITs in recognition of their historical investment characteristics, including a secure and growing dividend stream, diversification away from the broader stock and bond markets, and competitive total returns. In addition, as more and more investors came to appreciate the investment characteristics of real estate, REIT merger and acquisition activity heated up. The prices paid for real estate companies over the course of 2004 continued to validate the higher asset values associated with high quality U.S. commercial real estate assets. For all these reasons, the portfolio experienced another year of very strong absolute returns while at the same time providing current income at levels that were superior to that of the REIT market, as measured by the dividend yield of the NAREIT Equity REIT Index.

Regional mall companies continued to lead the REIT industry in performance. Benefiting from strong sales growth, rapid consolidation of ownership (resulting in greater leverage with retailers), strong demand for space by retailers, and a relatively fixed supply of franchise assets, regional malls returned 45.1%. Mills Corporation was our best performing mall stock, returning 52.4%. Shopping centers benefited from some of the same trends in retailing and returned 37.0%. Though we maintained a significant weighting in both these sectors, our underweight positions -- due to the lack of available yield opportunities in of these sectors -- detracted from the fund's overall performance.

The industrial and apartment sectors, both cyclical in nature, benefited from a strong economy and generated 34.1% and 34.7% respectively. AvalonBay Communities, for example, was the best performing stock in the fund generating a 65.0% total return.

Office companies trailed the index on average by a wide margin, returning 23.4% as a group. Office fundamentals, however, varied widely across the U.S. Although the dividend yields in this sector are generally well above average, our overweight here was a drag on the fund's total return performance. The fund's best office holding was Kilroy Realty with a 37.6% total return while the worst performer was Equity Office Properties with a total returned of 9.1%. The worst performing stock in the fund was Affordable Residential Communities, a manufactured housing company -- lower apartment rents and affordable for-sale housing have continued to disadvantage this low-priced housing alternative. Affordable Residential Communities returned - 4.8%, one of only a small handful of REITs with a negative total return in 2004.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

### INVESTMENT OUTLOOK

We anticipate that economic fundamentals in 2005 will be similar to 2004 and in a few ways even better. We believe that GDP growth will be in the 3.5% range with job growth of about 2 million. In our view, barring any large, exogenous economic shocks, this will result in continuing improvement in the unemployment rate and real wage gains. In short, we believe the economic recovery should

become self-sustaining and somewhat steadier.

This should provide a continued positive backdrop for real estate fundamentals, characterized by higher occupancies, rents and cash flows for most property types and in most regions of the country. As a result, our estimates indicate that REIT cash flow and dividend growth will continue to acceleration through 2005 and 2006. We expect REIT cash flow to increase 9.2% and 9.5% while dividend growth is projected at 5.9% and 6.2% in 2005 and 2006, respectively. We believe the growth in earnings and dividends will support strong REIT valuations. Further, we believe this growth to be superior to what may be expected from most other sectors of the equity market.

Although past performance is no guarantee of future results, history has shown that accelerating cash flow and dividend growth rates, which we anticipate for at least the next two years, can have a salutary effect on stock prices. For REITs as with other stocks, it has generally been when growth rates peaked and began declining that stock prices peaked. Not coincidentally, when REIT cash flow growth rates last peaked in early 1998, the REIT index peaked as well, and total returns turned negative. By 1998, real estate in the United States had been in recovery for several years and growth rates had been accelerating. But with rents having escalated dramatically in 1996 and 1997, an explosion of new construction in 1998 began to attenuate the dramatic market rental rate increases that commercial landlords had been experiencing. In short, real estate had fully recovered and even though demand from the economy was growing nicely, supply had risen to meet that demand, causing earnings growth rates to peak.

Accordingly, if the current real estate cycle continues to improve and economic growth remains steady in the 2.5% to 4% range, we believe that real estate stocks can continue to perform well, until such time as market rents rise to the level where developers are induced to build new buildings and rental increases are stifled by new competitive product. We believe that this eventuality is still a couple of years away. Rents, though rising in most markets, are generally nowhere near levels that would justify new construction and will not be for some time in our view. In most instances, we believe that it will be several years before new construction makes sense, given that the price of building a building has also escalated dramatically in accordance with the price of steel, concrete, lumber and labor.

In summary, we anticipate that a steadily growing economy will support demand for real estate and that muted new construction will constrain the supply of real estate in many markets. With respect to REITs, we believe that cash flow growth will continue to accelerate along with dividend growth. We further believe that correctly anticipating these changing growth rates will be the key to REIT stock price performance again in 2005. Valuations are somewhat above historical averages, partially reflecting some of these positives in our view. However, valuations are not at levels that indicate to us a peak in stock prices. As it relates to REIT preferred stocks, we will

adhere to the proven strategy of maintaining an allocation to REIT preferred stocks which provide a premium yield, enhance the stability of the overall portfolio, and generally provide a total return that we believe is attractive in what we generally believe will be a low return environment. As a result, we

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believe the fund's overall portfolio may deliver attractive total returns in 2005, although investors are cautioned not to assume that returns will continue at the pace of the past two years.

Sincerely,

MARTIN COHEN  
MARTIN COHEN  
President

ROBERT H. STEERS  
ROBERT H. STEERS  
Chairman

JOSEPH M. HARVEY  
JOSEPH M. HARVEY  
Portfolio Manager

JAMES S. CORL  
JAMES S. CORL  
Portfolio Manager

VISIT COHEN & STEERS ONLINE AT COHENANDSTEERS.COM

For more information about any of our funds, visit [cohenandsteers.com](http://cohenandsteers.com), where you'll find daily net asset values, fund fact sheets and portfolio highlights. You can also access newsletters, education tools and market updates covering the REIT, utility 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.

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4

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

### OUR LEVERAGE STRATEGY (UNAUDITED)

While we do not attempt to predict what future interest rates will be, 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. Our leverage strategy involves issuing auction market preferred shares (AMPS) to raise additional capital for the fund, with an objective of increasing the net income available for shareholders. As of December 31, 2004, AMPS represented 33% of the fund's managed net assets. Considering that AMPS have variable dividend rates, we seek to lock in the rate on a majority 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, we have fixed the rate on 55% of our borrowings at an average interest rate of 4.9%, for an average remaining period of 2.5 years (when we first entered

into the swaps, the average term was 5 years). By locking in a large portion of our leveraging costs, we have endeavored to adequately protect the dividend-paying ability of the fund, which is one of the reasons the fund has been able to increase its monthly dividend on several occasions. 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 from any impact that an increase in short-term interest rates may have as a result of the use of leverage.

LEVERAGE FACTS (a)

Leverage (as % of managed net assets).....	33%
% Fixed Rate.....	55%
% Variable Rate.....	45%
Average Rate on Swaps.....	4.9%
Average Term on Swaps.....	2.5 years
Current Rate on AMPS.....	2.5%

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(a) Data as of December 31, 2004. Information subject to change.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

DECEMBER 31, 2004  
TOP TEN HOLDINGS  
(UNAUDITED)

SECURITY	MARKET VALUE	% OF MANAGED ASSETS
	-----	-----
1. Macerich Co.....	\$50,733,420	3.88%
2. Vornado Realty Trust.....	50,507,916	3.86
3. Mack-Cali Realty Corp.....	49,427,014	3.78
4. Ventas.....	48,419,765	3.70
5. Mills Corp.....	47,016,624	3.59
6. Liberty Property Trust.....	46,016,640	3.52
7. Crescent Real Estate Equities Co., 6.75% Series A...	40,701,540	3.11
8. Equity Office Properties Trust.....	38,275,328	2.93
9. Prentiss Properties Trust.....	38,207,640	2.92
10. Health Care REIT.....	36,991,194	2.83

SECTOR BREAKDOWN  
(Based on Managed Assets)

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(Unaudited)

[PIE CHART]

Office/Industrial	29.81%
Shopping Center	20.05%
Residential	13.00%
Diversified	12.16%
Health Care	11.57%
Hotel	5.27%
Cash & Liabilities in Excess of Other Assets	4.75%
Mortgage	2.88%
Self Storage	0.51%

6

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS  
DECEMBER 31, 2004

		NUMBER OF SHARES	VALUE (NOTE 1)	DIVIDEND YIELD (UNAUDITED) (a)
		-----	-----	-----
EQUITIES	142.54% (b)			
COMMON STOCK	114.46%			
DIVERSIFIED	12.78%			
Capital Trust -- Class A.....		66,100	\$ 2,029,931	6.51%
Colonial Properties Trust.....		582,300	22,866,921	6.82
Crescent Real Estate Equities Co.....		996,900	18,203,394	8.21
iStar Financial.....		400,500	18,126,630	6.16
Vornado Realty Trust.....		663,443	50,507,916	3.99
			-----	
			111,734,792	
			-----	
HEALTH CARE	17.11%			
Health Care Property Investors.....		1,190,400	32,962,176	6.03

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Health Care REIT.....	969,625	36,991,193	6.29
LTC Properties.....	131,200	2,612,192	6.03
Nationwide Health Properties.....	1,205,300	28,625,875	6.23
Ventas.....	1,766,500	48,419,765	4.74
		-----	
		149,611,201	
		-----	
HOTEL	2.39%		
Hospitality Properties Trust.....	389,200	17,903,200	6.26
Strategic Hotel Capital.....	183,400	3,026,100	5.33
		-----	
		20,929,300	
		-----	
INDUSTRIAL	2.86%		
First Industrial Realty Trust.....	614,500	25,028,585	6.83
		-----	
MORTGAGE	4.13%		
Gramercy Capital Corp.....	785,000	14,553,900	3.24
Newcastle Investment Corp.....	678,528	21,563,620	7.87
		-----	
		36,117,520	
		-----	

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- (a) Dividend yield is computed by dividing the security's current annual dividend rate by the last sale price on the principal exchange or market. The dividend yield has not been audited.
- (b) Percentages indicated are based on the net assets applicable to common shares of the fund.

See accompanying notes to financial statements.

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7

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)  
DECEMBER 31, 2004

		NUMBER	VALUE	DIVIDEND
		OF SHARES	(NOTE 1)	YIELD
		-----	-----	(UNAUDITED)
				-----
OFFICE	33.60%			
Arden Realty.....	826,800	\$ 31,186,896	5.36%	
BioMed Realty Trust.....	59,000	1,310,390	4.86	
Brandywine Realty Trust.....	1,140,900	33,531,051	5.99	
CarrAmerica Realty Corp.....	1,010,600	33,349,800	6.06	
Equity Office Properties Trust.....	1,314,400	38,275,328	6.87	
Highwoods Properties.....	415,300	11,503,810	6.14	
HRPT Properties Trust.....	635,400	8,152,182	6.55	
Kilroy Realty Corp.....	142,600	6,096,150	4.63	
Mack-Cali Realty Corp.....	1,073,800	49,427,014	5.47	



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Maguire Properties.....	604,800	16,607,808	5.83
Prentiss Properties Trust.....	1,000,200	38,207,640	5.86
Reckson Associates Realty Corp.....	794,100	26,054,421	5.18
		-----	
		293,702,490	
		-----	
OFFICE/INDUSTRIAL	5.26%		
Liberty Property Trust.....	1,065,200	46,016,640	5.65
		-----	
RESIDENTIAL	15.27%		
APARTMENT	14.90%		
AMLI Residential Properties Trust.....	77,000	2,464,000	6.00
American Campus Communities.....	130,800	2,941,692	6.00
Archstone-Smith Trust.....	754,100	28,882,030	4.49
AvalonBay Communities.....	307,200	23,132,160	3.72
Camden Property Trust.....	366,600	18,696,600	4.98
GMH Communities Trust.....	243,500	3,433,350	6.45
Gables Residential Trust.....	586,900	21,005,151	6.73
Home Properties.....	361,600	15,548,800	5.86
Mid-America Apartment Communities.....	309,400	12,753,468	5.68
Town & Country Trust.....	50,000	1,381,500	6.23
		-----	
		130,238,751	
		-----	
MANUFACTURED HOME	0.37%		
Affordable Residential Communities....	225,200	3,231,620	8.71
		-----	
TOTAL RESIDENTIAL.....		133,470,371	
		-----	

See accompanying notes to financial statements.

8

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)  
DECEMBER 31, 2004

		NUMBER OF SHARES	VALUE (NOTE 1)	DIVIDEND YIELD (UNAUDITED)
		-----	-----	-----
SELF STORAGE	0.77%			
Sovran Self Storage.....		87,300	\$ 3,678,822	5.74%
U-Store-It Trust.....		173,600	3,011,960	6.46
			-----	
			6,690,782	
			-----	
SHOPPING CENTER	20.29%			
COMMUNITY CENTER	7.19%			
Cedar Shopping Centers.....		200,000	2,860,000	6.29
Heritage Property Investment Trust....		449,100	14,411,619	6.54

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Kramont Realty Trust.....	1,293,300	30,263,220	5.56
New Plan Excel Realty Trust.....	222,700	6,030,716	6.09
Urstadt Biddle Properties -- Class A.....	544,000	9,275,200	5.16
		-----	
		62,840,755	
		-----	
REGIONAL MALL	13.10%		
Glimcher Realty Trust.....	605,200	16,770,092	6.93
Macerich Co.....	807,857	50,733,420	4.14
Mills Corp.....	737,400	47,016,624	3.73
		-----	
		114,520,136	
		-----	
TOTAL SHOPPING CENTER.....		177,360,891	
		-----	
TOTAL COMMON STOCK (Identified cost -- \$665,445,753).....		1,000,662,572	
		-----	
PREFERRED STOCK	28.08%		
DIVERSIFIED	5.43%		
Colonial Properties Trust, 8.125%, Series D.....	64,900	1,723,095	7.65
Crescent Real Estate Equities Co., 6.75%, Series A (Convertible) (a)...	1,826,000	40,701,540	7.58
iStar Financial, 7.80%, Series F.....	106,000	2,756,000	7.50
iStar Financial, 7.65%, Series G.....	86,100	2,221,380	7.40
		-----	
		47,402,015	
		-----	

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(a) 410,000 shares segregated as collateral for the interest rate swap transactions.

See accompanying notes to financial statements.

9

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)  
DECEMBER 31, 2004

	NUMBER OF SHARES	VALUE (NOTE 1)	DIVIDEND YIELD (UNAUDITED)
	-----	-----	-----
HEALTH CARE	0.20%		
Health Care REIT, 7.625%, Series F....	28,300	\$ 714,575	7.56%
Omega Healthcare Investors, 8.375%, Series D.....	40,000	1,056,000	7.92

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			----- 1,770,575 -----	
HOTEL	5.48%			
FelCor Lodging Trust, 9.00%, Series B.....		652,500	16,723,575	8.78
Host Marriott Corp., 10.00%, Series B.....		14,100	363,780	9.69
Host Marriott Corp., 10.00%, Series C.....		30,700	809,559	9.48
Host Marriott Corp., 8.875%, Series E.....		10,000	277,750	7.99
Innkeepers USA Trust, 8.00%, Series C.....		92,000	2,369,000	7.77
LaSalle Hotel Properties, 10.25%, Series A.....		1,000,000	27,400,000	9.34
			----- 47,943,664 -----	
MORTGAGE	0.17%			
Newcastle Investment Corp., 9.75%, Series B.....		56,000	1,517,040	9.01
OFFICE	2.85%			
Cousins Properties, 7.50%, Series B.....		200,000	5,024,000	7.48
HRPT Properties Trust, 8.75%, Series B.....		120,000	3,318,600	7.92
Highwoods Properties, 8.625%, Series A.....		13,195	13,821,762	8.23
Maguire Properties, 7.625%, Series A.....		106,600	2,728,960	7.46
			----- 24,893,322 -----	
OFFICE/INDUSTRIAL	0.04%			
PS Business Parks, 8.75%, Series F....		4,100	110,188	8.15
ProLogis, 8.54%, Series C.....		4,000	235,000	7.27
			----- 345,188 -----	

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)  
DECEMBER 31, 2004

NUMBER OF SHARES	VALUE (NOTE 1)	DIVIDEND YIELD (UNAUDITED)
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RESIDENTIAL -- APARTMENT	4.19%			
Apartment Investment & Management Co., 8.75%, Series D.....		2,561	\$ 64,025	8.76%
Apartment Investment & Management Co., 10.10%, Series R.....		950,000	25,298,500	9.39
Associated Estates Realty Corp., 8.70%, Series B.....		90,000	2,335,500	8.40
Home Properties, 9.00%, Series F.....		196,000	5,370,400	8.21
Mid-America Apartment Communities, 8.30%, Series H.....		138,100	3,590,600	8.00
			36,659,025	
SHOPPING CENTER	9.72%			
COMMUNITY CENTER	4.35%			
Developers Diversified Realty Corp., 8.60%, Series F.....		1,039,400	27,928,678	8.00
Federal Realty Investment Trust, 8.50%, Series B.....		276,300	7,496,019	7.85
Urstadt Biddle Properties, 8.50%, Series C.....		24,000	2,586,000	7.89
			38,010,697	
FREE STANDING	0.08%			
Commercial Net Lease Realty, 9.00%, Series A.....		25,000	676,500	8.31

See accompanying notes to financial statements.

11

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)  
DECEMBER 31, 2004

	NUMBER OF SHARES	VALUE (NOTE 1)	DIVIDEND YIELD (UNAUDITED)
REGIONAL MALL			
CBL & Associates Properties, 8.75%, Series B.....	430,000	\$ 23,220,000	8.11%
CBL & Associates Properties, 7.375%, Series D.....	310,000	7,703,500	7.40
Glimcher Realty Trust, 8.75%, Series F.....	40,000	1,042,000	8.41
Glimcher Realty Trust, 8.125%, Series G.....	40,000	1,031,600	7.87

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Mills Corp., 9.00%, Series B.....	55,300	1,531,810	8.12
Mills Corp., 9.00%, Series C.....	159,600	4,436,880	8.09
Mills Corp., 8.75%, Series E.....	84,000	2,382,240	7.72
Simon Property Group, 8.75%, Series F.....	30,000	807,300	8.14
Simon Property Group, 8.375%, Series J.....	14,000	799,400	7.34
Taubman Centers, 8.30%, Series A.....	127,600	3,255,076	8.15
		-----	
		46,209,806	
		-----	
TOTAL SHOPPING CENTER.....		84,897,003	
		-----	
TOTAL PREFERRED STOCK (Identified cost -- \$224,828,408).....		245,427,832	
		-----	
TOTAL EQUITIES (Identified cost -- \$890,274,161).....		1,246,090,404	
		-----	

See accompanying notes to financial statements.

12

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)  
DECEMBER 31, 2004

		PRINCIPAL AMOUNT	VALUE (NOTE 1)
		-----	-----
COMMERCIAL PAPER	7.37%		
State Street Corp., 1.70%, due 01/03/05.....		\$14,387,000	\$ 14,385,641
UBS Financial, 1.70%, due 01/03/05.....		50,000,000	49,995,278
			-----
(Identified cost -- \$64,380,919).....			64,380,919
			-----
TOTAL INVESTMENTS (Identified cost -- \$954,655,080).....	149.91%		1,310,471,323
LIABILITIES IN EXCESS OF OTHER ASSETS.....	(0.26)%		(2,230,580)
LIQUIDATION VALUE OF TAXABLE AUCTION MARKET PREFERRED SHARES: SERIES T, SERIES W, SERIES TH, AND SERIES F (Equivalent to \$25,000 per share based on 2,800 shares outstanding).....	(32.03)%		(280,000,000)
LIQUIDATION VALUE OF AUCTION MARKET PREFERRED SHARES: SERIES M28 AND SERIES M7 (Equivalent to \$25,000			

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per share based on 2,400 shares  
 outstanding for Series M28 and  
 3,760 shares outstanding for  
 Series M7)..... (17.62)% (154,000,000)

NET ASSETS APPLICABLE TO COMMON  
 SHARES (Equivalent to \$22.50 per  
 share based on 38,856,074 shares of  
 capital stock outstanding)..... 100.00% \$ 874,240,743

See accompanying notes to financial statements.

13

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES  
 DECEMBER 31, 2004

ASSETS:

Investments in securities, at value (Identified  
 cost -- \$954,655,080) (Note 1)..... \$1,310,471,323  
 Cash..... 562  
 Dividends receivable..... 7,398,661  
 Unrealized appreciation on interest rate swap  
 transactions (Notes 1 and 6)..... 260,533  
 Other assets..... 37,961  
 Total Assets..... 1,318,169,040

LIABILITIES:

Unrealized depreciation on interest rate swap  
 transactions (Notes 1 and 6)..... 8,008,771  
 Payable to investment manager..... 580,941  
 Payable for dividends declared on common shares..... 541,014  
 Payable for dividends declared on preferred shares..... 424,464  
 Payable for preferred offering costs..... 125,078  
 Payable for investment securities purchased..... 48,221  
 Payable to administrator..... 21,924  
 Payable for directors fees..... 6,290  
 Other liabilities..... 171,594  
 Total Liabilities..... 9,928,297

LIQUIDATION VALUE OF PREFERRED SHARES:

Taxable auction market preferred shares, Series T  
 (\$25,000 liquidation value, \$0.001 par value, 2,800  
 shares issued and outstanding) (Notes 1 and 5)..... 70,000,000  
 Taxable auction market preferred shares, Series W  
 (\$25,000 liquidation value, \$0.001 par value, 2,800  
 shares issued and outstanding) (Notes 1 and 5)..... 70,000,000

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Taxable auction market preferred shares, Series TH (\$25,000 liquidation value, \$0.001 par value, 2,800 shares issued and outstanding) (Notes 1 and 5).....	70,000,000
Taxable auction market preferred shares, Series F (\$25,000 liquidation value, \$0.001 par value, 2,800 shares issued and outstanding) (Notes 1 and 5).....	70,000,000
Auction market preferred shares, Series M28 (\$25,000 liquidation value, \$0.001 par value, 2,400 shares issued and outstanding) (Notes 1 and 5).....	60,000,000
Taxable auction market preferred shares, Series M7 (\$25,000 liquidation value, \$0.001 par value, 3,760 shares issued and outstanding) (Notes 1 and 5).....	94,000,000
	-----
	434,000,000
	-----
TOTAL NET ASSETS APPLICABLE TO COMMON SHARES.....	\$ 874,240,743
	-----
	-----
TOTAL NET ASSETS APPLICABLE TO COMMON SHARES consist of:	
Common stock (\$0.001 par value, 38,856,074 shares issued and outstanding) (Notes 1 and 5).....	\$ 526,667,180
Distributions in excess of net investment income.....	(71,770)
Accumulated net realized loss on investments.....	(422,672)
Net unrealized appreciation on investments and interest rate swap transactions.....	348,068,005
	-----
	\$ 874,240,743
	-----
	-----
NET ASSET VALUE PER COMMON SHARE:	
(\$874,240,743[div]38,856,074 shares outstanding).....	\$ 22.50
	-----
	-----
MARKET PRICE PER COMMON SHARE.....	\$ 20.62
	-----
	-----
MARKET PRICE PREMIUM/(DISCOUNT) TO NET ASSET VALUE PER COMMON SHARE.....	(8.36)%
	-----
	-----

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2004

Investment Income (Note 1):	
Dividend income.....	\$ 46,874,813
Interest income.....	229,738
	-----

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Total Income.....	47,104,551	-----
Expenses:		
Investment management fees (Note 2).....	9,387,060	
Preferred remarketing fees.....	876,612	
Administration fees (Note 2).....	389,621	
Reports to shareholders.....	277,600	
Professional fees.....	155,768	
Custodian fees and expenses.....	92,031	
Directors' fees and expenses (Note 2).....	50,436	
Transfer agent fees and expenses.....	14,055	
Miscellaneous.....	149,224	-----
Total Expenses.....	11,392,407	
Reduction of Expenses (Note 2).....	(3,533,952)	-----
Net Expenses.....	7,858,455	-----
Net Investment Income.....	39,246,096	-----
Net Realized and Unrealized Gain/(Loss) on Investments (Note 1):		
Net realized gain on investments.....	16,903,107	
Net realized loss on interest rate swap transactions....	(8,363,437)	
Net change in unrealized appreciation on investments....	166,497,688	
Net change in unrealized depreciation on interest rate swap transactions.....	6,804,725	-----
Net realized and unrealized gain/(loss) on investments.....	181,842,083	-----
Net Increase Resulting from Operations.....	221,088,179	
Less Dividends and Distributions to Preferred Shareholders from:		
Net investment income.....	(5,570,485)	-----
Net Increase in Net Assets from Operations Applicable to Common Shares.....	\$215,517,694	-----

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

STATEMENT OF CHANGES IN NET ASSETS APPLICABLE TO COMMON SHARES

FOR THE  
YEAR ENDED  
DECEMBER 31, 2004

FOR THE  
YEAR ENDED  
DECEMBER 31, 2003



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### Change in Net Assets Applicable to Common Shares:

#### From Operations:

Net investment income.....	\$ 39,246,096	\$ 40,209,268
Net realized gain/(loss) on investments and interest rate swap transactions.....	8,539,670	8,538,886
Net change in unrealized appreciation on investments and interest rate swap transactions.....	173,302,413	212,314,764
	-----	-----
Net increase in net assets resulting from operations.....	221,088,179	261,062,918
	-----	-----

#### Less Dividends and Distributions to Preferred Shareholders from:

Net investment income.....	(3,775,000)	(2,449,183)
Net realized gain on investments.....	(1,795,485)	(1,294,045)
	-----	-----
Total dividends and distributions to preferred shareholders.....	(5,570,485)	(3,743,228)
	-----	-----
Net increase/(decrease) in net assets from operations applicable to common shares.....	215,517,694	257,319,690
	-----	-----

#### Less Dividends and Distributions to Common Shareholders from:

Net investment income.....	(27,723,135)	(29,555,562)
Net realized gain on investments.....	(14,856,262)	(15,615,873)
Tax return of capital.....	(13,567,631)	(10,118,665)
	-----	-----
Total dividends and distributions to common shareholders.....	(56,147,028)	(55,290,100)
	-----	-----

#### Capital Stock Transactions (Note 5):

Increase in net assets from shares issued to common shareholders for reinvestment of dividends.....	--	3,038,014
Increase in net assets from preferred offering cost adjustment.....	121,909	--
Decrease in net assets from underwriting commissions and offering expenses from issuance of preferred shares.....	(1,335,519)	(935,773)
	-----	-----
Net increase/(decrease) in net assets from capital stock transactions.....	(1,213,610)	2,102,241
	-----	-----
Total increase in net assets applicable to common shares.....	158,157,056	204,131,831

#### Net Assets Applicable to Common Shares:

Beginning of year.....	716,083,687	511,951,856
	-----	-----
End of year (a).....	\$ 874,240,743	\$716,083,687
	-----	-----

-----  
(a) Includes distributions in excess of net investment income of \$71,770 at December 31, 2004 and undistributed net investment income of \$543,697 at December 31, 2003.

See accompanying notes to financial statements.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

## FINANCIAL HIGHLIGHTS

The following table includes selected data for a common share outstanding throughout each period and other performance information derived from the financial statements. It should be read in conjunction with the financial statements and notes thereto.

PER SHARE OPERATING PERFORMANCE:	FOR THE YEAR ENDED DECEMBER 31,		FE
	2004	2003	
Net asset value per common share, beginning of period.....	\$18.43	\$13.25	
Income from investment operations:			
Net investment income.....	0.79	1.04 (b)	
Net realized and unrealized gain/(loss) on investments and interest rate swap transactions.....	4.90	5.69	
Total income from investment operations.....	5.69	6.73	
Less dividends and distributions to preferred shareholders from:			
Net investment income.....	(0.09)	(0.07)	
Net realized gain on investments.....	(0.05)	(0.03)	
Total dividends and distributions to preferred shareholders.....	(0.14)	(0.10)	
Total from investment operations applicable to common shares.....	5.55	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.....	(0.03) (c)	(0.02)	
Dilutive effect of common share offering.....	--	--	
Total offering and organization costs.....	(0.03)	(0.02)	
Less dividends and distributions to common shareholders from:			
Net investment income.....	(0.72)	(0.76)	
Net realized gain on investments.....	(0.38)	(0.41)	
Tax return of capital.....	(0.35)	(0.26)	
Total dividends and distributions to common shareholders.....	(1.45)	(1.43)	

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Net increase/(decrease) in net asset value per common share.....	4.07	5.18
	-----	-----
Net asset value, per common share, end of period.....	\$22.50	\$18.43
	-----	-----
Market value, per common share, end of period.....	\$20.62	\$17.85
	-----	-----
Net asset value total return(d).....	32.15%	52.61%
	-----	-----
Market value return(d).....	25.05%	50.07%
	-----	-----

- 
- (a) Commencement of operations.
  - (b) Calculation based on average shares outstanding.
  - (c) Includes preferred offering cost adjustments of less than \$0.005 per share.
  - (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. 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. Total net asset value return measures the changes in value over the period indicated, taking into account dividends as reinvested.
  - (e) Not annualized.

See accompanying notes to financial statements.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

FINANCIAL HIGHLIGHTS -- (CONTINUED)

RATIOS/SUPPLEMENTAL DATA:	FOR THE YEAR ENDED DECEMBER 31,		D
	2004	2003	
Net assets applicable to common shares, end of period (in millions).....	\$ 874.2	\$ 716.1	
	-----	-----	
Ratio of expenses to average daily net assets applicable to common shares (before expense reduction) (e).....	1.51%	1.57%	
	-----	-----	
Ratio of expenses to average daily net assets applicable to common shares (net of expense reduction) (e).....	1.04%	1.09%	
	-----	-----	

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Ratio of net investment income to average daily net assets applicable to common shares (before expense reduction) (e).....	4.74%	6.39%
Ratio of net investment income to average daily net assets applicable to common shares (net of expense reduction) (e).....	5.20%	6.88%
Ratio of expenses to average daily managed assets (before expense reduction) (d,e).....	1.03%	1.04%
Ratio of expenses to average daily managed assets (net of expense reduction) (d,e).....	0.71%	0.72%
Portfolio turnover rate.....	3.33%	20.51%
PREFERRED SHARES:		
Liquidation value, end of period (in 000's).....	\$434,000	\$340,000
Total shares outstanding (in 000's).....	17	14
Asset coverage per share.....	\$ 75,359	\$ 77,653
Liquidation preference per share.....	\$ 25,000	\$ 25,000
Average market value per share(k).....	\$ 25,000	\$ 25,000

(a) Commencement of operations.

(b) Annualized

(c) Not annualized.

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

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

(f) Based on weekly prices.

See accompanying notes to financial statements.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Cohen & Steers Quality Income Realty Fund, Inc. (the fund) was incorporated under the laws of the State of Maryland on August 22, 2001 and is registered under the Investment Company Act of 1940, as amended, as a nondiversified, closed-end management investment company.

The following is a summary of significant accounting policies consistently followed by the fund in the preparation of its financial statements. The policies are in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Portfolio Valuation:** Investments in securities that are listed on the New York Stock Exchange are valued, except as indicated below, at the last sale price reflected at the close of the New York Stock Exchange on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices for the day or, if no asked price is available, at the bid price. If no bid or asked prices are quoted on such day, then the security is valued by such method as the board of directors shall determine in good faith to reflect its fair market value.

Securities not listed on the New York Stock Exchange but listed on other domestic or foreign securities exchanges or admitted to trading on the National Association of Securities Dealers Automated Quotations, Inc. (Nasdaq) national market system are valued in a similar manner. Securities traded on more than one securities exchange are valued at the last sale price on the business day as of which such value is being determined as reflected on the tape at the close of the exchange representing the principal market for such securities.

Readily marketable securities traded in the over-the-counter market, including listed securities whose primary market is believed by the investment manager to be over-the-counter, but excluding securities admitted to trading on the Nasdaq national list, are valued at the official closing prices as reported by Nasdaq, the National Quotations Bureau or such other comparable sources as the board of directors deems appropriate to reflect their fair market value. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices for the day, or if no asked price is available, at the bid price. However, certain fixed-income securities may be valued on the basis of prices provided by a pricing service when such prices are believed by the board of directors to reflect the fair market value of such securities. Where securities are traded on more than one exchange and also over-the-counter, the securities will generally be valued using the quotations the board of directors believes reflect most closely the value of such securities.

Any securities for which market quotations are not readily available shall be valued in accordance with the procedures approved by the board of directors.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Short-term debt securities, which have a maturity of 60 days or less, are valued at amortized cost which approximates value.

Interest Rate Swaps: The fund uses interest rate swaps in connection with the sale of auction market preferred shares. The interest rate swaps are intended to reduce or eliminate the risk that an increase in short-term interest rates could have on the performance of the fund's common shares as a result of the floating rate structure of the preferred shares. In these interest rate swaps, the fund agrees to pay the other party to the interest rate swap (which is known as the counterparty) a fixed rate payment in exchange for the counterparty agreeing to pay the fund a variable rate payment that is intended to approximate the fund's variable rate payment obligation on the taxable auction market preferred shares. The payment obligation is based on the notional amount of the swap. Depending on the state of interest rates in general, the use of interest rate swaps could enhance or harm the overall performance of the common shares. The market value of interest rate swaps is based on pricing models that consider the time value of money, volatility, the current market and contractual prices of the underlying financial instrument. Unrealized gains are reported as an asset and unrealized losses are reported as a liability on the Statement of Assets and Liabilities. The change in value of swaps, including the accrual of periodic amounts of interest to be paid or received on swaps, is reported as unrealized gains or losses in the Statement of Operations. A realized gain or loss is recorded upon payment or receipt of a periodic payment or termination of swap agreements. Swap agreements involve, to varying degrees, elements of market and counterparty risk, and exposure to loss in excess of the related amounts reflected in the Statement of Assets and Liabilities.

Security Transactions and Investment Income: Security transactions are recorded on trade date. Realized gains and losses on investments sold are recorded on the basis of identified cost. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. The fund records distributions received in excess of income from underlying investments as a reduction of cost of investments and/or realized gain. Such amounts are based on estimates if actual amounts are not available, and actual amounts of income, realized gain and return of capital may differ from the estimated amounts. The fund adjusts the estimated amounts of the components of distributions (and consequently its net investment income) as an increase to unrealized appreciation/(depreciation) and realized gain/(loss) on investments as necessary once the issuers provide information about the actual composition of the distributions.

Dividends and Distributions to Shareholders: Dividends from net investment income are declared and paid to common shareholders monthly. Dividends to shareholders are recorded on the ex-dividend date. A portion of the fund's dividend may consist of amounts in excess of net investment income derived from nontaxable components of the dividends from the fund's portfolio investments. Net realized capital gains, unless offset by any available capital loss carryforward, are distributed to shareholders annually.

Dividends from net investment income and capital gain distributions are

determined in accordance with U.S. federal income tax regulations which may differ from GAAP.

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20

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Series M7, Series T, Series TH, and Series F preferred shares pay dividends based on a variable interest rate set at auctions, normally held every seven days. Dividends for Series M7, Series T, Series TH, and Series F preferred shares are declared and recorded for the subsequent seven day period on the auction date. In most instances, dividends are payable every seven days, on the first business day following the end of the dividend period.

Series M28 and Series W preferred shares pay dividends based on a variable interest rate set at auctions, normally held every 28 days. Dividends for Series M28 and Series W preferred shares are declared and recorded for the subsequent 28 day period on the auction date. In most instances, dividends are payable every 28 days, on the first business day following the end of the dividend period.

Federal Income Taxes: It is the policy of the fund to qualify as a regulated investment company, if such qualification is in the best interest of the shareholders, by complying with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies, and by distributing substantially all of its taxable earnings to its shareholders. Accordingly, no provision for federal income or excise tax is necessary.

NOTE 2. INVESTMENT MANAGEMENT FEES, ADMINISTRATION FEES AND OTHER TRANSACTIONS WITH AFFILIATES

Investment Management Fees: Cohen & Steers Capital Management, Inc. (the investment manager) serves as the investment manager to the fund, pursuant to an investment management agreement (the management agreement). The investment manager furnishes a continuous investment program for the fund's portfolio, makes the day-to-day investment decisions for the fund and generally manages the fund's investments in accordance with the stated policies of the fund, subject to the general supervision of the board of directors of the fund. The investment manager also performs certain administrative services for the fund.

For the services under the management agreement, the fund pays the investment manager a monthly management fee, computed daily and payable monthly at an annual rate of 0.85% of the fund's average daily managed asset value. Managed asset value is the net asset value of the common shares plus the liquidation preference of the preferred shares. For the year ended December 31, 2004, the fund incurred investment management fees of \$9,387,060.

The investment manager has contractually agreed to waive investment management fees in the amount of 0.32% of average daily managed asset value for the first five fiscal years of the fund's operations, 0.26% of average daily managed asset value in year six, 0.20% of average daily managed asset value in year seven, 0.14% of average daily managed asset value in year eight, 0.08% of average daily managed asset value in year nine and 0.02% of average daily managed asset value in year 10. As long as this waiver continues, it may lower

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the fund's expenses and increase its total return. For the year ended December 31, 2004, the investment manager waived management fees of \$3,533,952.

Administration Fees: Pursuant to an administration agreement, the investment manager also performs certain administrative and accounting functions for the fund and receives a fee of 0.02% of the fund's average

21

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

daily managed asset value. For the year ended December 31, 2004, the fund incurred 220,870 in administration fees.

Director's Fees: Certain directors and officers of the fund are also directors, officers and/or employees of the investment manager. None of the directors and officers so affiliated received compensation for their services. For the year ended December 31, 2004, fees and related expenses accrued for nonaffiliated directors totaled \$50,436.

Other: During the period, the fund may have purchased securities in which an affiliate of the investment manager served as placement agent for the issuer.

NOTE 3. PURCHASES AND SALES OF SECURITIES

Purchases and sales of securities, excluding short-term investments for the year ended December 31, 2004, totaled \$67,982,902 and \$36,914,045, respectively.

NOTE 4. INCOME TAXES

The fund had a return of capital of \$13,567,631 (\$0.35 per share) for the year ended December 31, 2004.

Short-term capital gains are reflected in the financial statements as realized gains on investments but are typically treated as ordinary income for tax purposes.

The dividends and distributions to shareholders are characterized for tax purposes as follows:

	FOR THE YEAR ENDED DECEMBER 31,	
	2004	2003
Preferred Shareholders:		
Ordinary income.....	\$ 3,900,110 (a)	\$ 2,449,183
Long-term capital gain.....	1,670,375	1,294,045
Total dividends and distributions to preferred shareholders.....	\$ 5,570,485	\$ 3,743,228



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	-----	-----
	-----	-----
Common Shareholders:		
Ordinary income.....	\$28,758,320	\$29,555,562
Long-term capital gain.....	13,821,077	15,615,873
Tax return of capital.....	13,567,631	10,118,665
	-----	-----
Total dividends and distributions to common shareholders.....	\$56,147,028	\$55,290,100
	-----	-----
	-----	-----

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(a) Under federal income tax rules, the tax character of \$424,464 will be determined based upon 2005 earnings and profits.  
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22  
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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.  
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NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

At December 31, 2004, the cost of investments and net unrealized appreciation for federal income tax purposes were as follows:

Aggregate cost.....	\$955,077,753
	-----
Gross unrealized appreciation.....	\$355,872,336
Gross unrealized depreciation.....	(478,766)
	-----
Net unrealized appreciation on investments.....	355,393,570
Net unrealized depreciation on interest rate swap transactions.....	(7,395,541)
	-----
Net unrealized appreciation.....	\$347,998,029
	-----
	-----

Differences between book and tax basis unrealized appreciation are primarily due to wash sales on portfolio securities and differing treatment of swap income/expense.

Net investment income and net realized gains differ for financial statement and tax purposes primarily due to differing treatment of interest rate swap payments, and wash sales on portfolio securities. To the extent such differences are permanent in nature, such amounts are reclassified within the capital accounts. During the year ended December 31, 2004, the fund decreased undistributed net investment income by \$8,363,427, increased accumulated net realized gain on investments by \$8,112,067 and decreased paid-in capital by \$251,360, relating primarily to differing treatment of interest rate swap income/expense.

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For the year ended December 31, 2004, the Fund did not have any undistributed ordinary income or capital gains.

### NOTE 5. CAPITAL STOCK

The fund is authorized to issue 100 million shares of common stock at a par value of \$0.001 per share. At December 31, 2004, Cohen & Steers Capital Management, Inc. owned approximately 9,000 shares.

During the year ended December 31, 2004, the fund issued no shares of common stock for the reinvestment of dividends. An adjustment of \$121,909 related to preferred offering costs was credited to common stock during the year ended December 31, 2004.

The fund's articles of incorporation authorize the issuance of fund preferred shares, par value \$0.001 per share, in one or more classes or series, with rights as determined by the board of directors, by action of the board of directors without the approval of the common shareholders.

During the year ended December 31, 2003, the fund issued 219,752 shares of common stock for the reinvestment of dividends.

On November 19, 2004, the fund issued 3,760 auction market preferred shares, Series M7 (par value \$0.001). Proceeds paid to the fund amounted to \$92,664,481 after deduction of underwriting commissions and offering expenses of \$1,335,519. This issue has received a 'AAA/Aaa' rating from Standard & Poor's and Moody's.

On September 15, 2003, the fund issued 2,400 auction market preferred shares, Series M28 (par value \$0.001). Proceeds paid to the fund amounted to \$59,064,267 after deduction of underwriting commissions and offering expenses of \$935,733. This issue has received a 'AAA/Aaa' rating from Standard & Poor's and Moody's.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

### NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Preferred shares are senior to the fund's common shares and will rank on a parity with shares of any other series of preferred shares, and with shares of any other series of preferred stock of the fund, as to the payment of dividends and the distribution of assets upon liquidation. If the fund does not timely cure a failure to (1) maintain a discounted value of its portfolio equal to the preferred shares basic maintenance amount, (2) maintain the 1940 Act preferred shares asset coverage, or (3) file a required certificate related to asset coverage on time, the preferred shares will be subject to a mandatory redemption at the redemption price of \$25,000 per share plus an amount equal to accumulated but unpaid dividends thereon to the date fixed for redemption. To the extent permitted under the 1940 Act and Maryland Law, the fund at its option may without consent of the holders of preferred shares, redeem preferred shares having a dividend period of one year or less, in whole, or in part, on the business day after the last day of such dividend period upon not less than 15 calendar days and not more than 40 calendar days prior to notice. The optional redemption price is \$25,000 per share plus an amount equal to accumulated but

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unpaid dividends thereon to the date fixed for redemption.

The fund's common shares and preferred shares have equal voting rights of one vote per share and vote together as a single class. In addition, the affirmative vote of the holders a majority, as defined in the 1940 Act, of the outstanding preferred shares shall be required to (1) approve any plan of reorganization that would adversely affect the taxable auction market preferred shares and (2) approve any matter that materially and adversely affects the rights, preferences, or powers of that series.

### NOTE 6. INVESTMENTS IN INTEREST RATE SWAPS

The fund has entered into interest rate swap agreements with Merrill Lynch Derivative Products, UBS AG, Banc of America, and Royal Bank of Canada. Under the agreements the fund receives a floating rate of interest and pays a respective fixed rate of interest on the nominal value of the swaps. Details of the swaps at December 31, 2004 are as follows:

COUNTERPARTY	NOTIONAL AMOUNT	FIXED RATE	FLOATING RATE (a) (RESET MONTHLY)	TERMINATION DATE
Merrill Lynch Derivative Products.....	\$46,000,000	4.5600%	2.331%	April 5, 2005
Merrill Lynch Derivative Products.....	\$46,000,000	5.2100%	2.331%	April 5, 2007
Merrill Lynch Derivative Products.....	\$46,000,000	5.5800%	2.331%	April 5, 2009
UBS AG.....	\$24,000,000	4.4500%	2.402%	April 15, 2005
UBS AG.....	\$24,000,000	5.1200%	2.402%	April 15, 2007
UBS AG.....	\$24,000,000	5.4950%	2.402%	April 15, 2009
Banc of America.....	\$14,000,000	3.2125%	2.290%	October 2, 2008
Royal Bank of Canada.....	\$14,000,000	3.6800%	2.413%	October 22, 2008

(a) Based on LIBOR (London Interbank Offered Rate). Represents rates in effect at December 31, 2004.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Cohen & Steers Quality Income Realty Fund, Inc.

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In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Cohen & Steers Quality Income Realty Fund, Inc. (the 'Fund') at December 31, 2004, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as 'financial statements') are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2004 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

New York, New York  
February 21, 2005

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25

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

AVERAGE ANNUAL TOTAL RETURNS (a)  
(PERIODS ENDED DECEMBER 31, 2004) (UNAUDITED)

ONE YEAR -----	SINCE INCEPTION (2/28/02) -----
32.15%	26.93%

The performance data quoted represent past performance. Past performance is no guarantee of future results. The rate of return will vary 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.

TAX INFORMATION -- 2004 (UNAUDITED)

Pursuant to the Jobs and Growth Relief Reconciliation Act of 2003, the fund designates qualified dividend income of \$143,295. Additionally, the fund designates long term capital gains distribution of \$11,539,478 at the rate of

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15% and \$3,951,976 at the rate of 25% or the maximum allowable.

Shareholders are advised to consult with their own tax advisors as to the Federal, State and local tax status of the income received.

REINVESTMENT PLAN

We urge shareholders who want to take advantage of this plan and whose shares are held in 'Street Name' to consult your broker, as soon as possible to determine if you must change registration into your own name to participate.

OTHER INFORMATION

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the fund may purchase, from time to time, shares of its common stock in the open market.

A description of the policies and procedures that the fund uses to determine how to vote proxies relating to portfolio securities is available (i) without charge, upon request, by calling 1-800-330-7348, (ii) on our Web site at [cohenandsteers.com](http://cohenandsteers.com), or (iii) on the Securities and Exchange Commission's (SEC) Web site at <http://www.sec.gov>. In addition, the fund's proxy voting record for the most recent 12-month period ended June 30 is available (i) without charge, upon request, by calling 1-800-330-7348 or (ii) on the SEC's Web site at <http://www.sec.gov>.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available (i) without charge, upon request by calling 1-800-330-7348, or (ii) on the SEC's website at <http://www.sec.gov>. In addition, the Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

As required, the fund has submitted to the New York Stock Exchange ('NYSE') the annual certification of the fund's chief executive officer that he is not aware of any violation of the NYSE's Corporate Governance listing standards. The fund also has included the certifications of the Fund's chief executive officer and chief financial

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(a) Based on net asset value.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

OTHER INFORMATION -- (CONTINUED)

officer required by Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to the fund's Form N-CSR for the year ended December 31, 2004 filed with the SEC.

As noted in the shareholder letter, the fund has adopted a level rate distribution policy. If, for any monthly distribution, the fund's net investment company taxable income is less than the amount of the distribution, the difference generally will be a tax-free return of capital distributed from the

fund's assets. Such a return of capital distribution would decrease the fund's total assets and, therefore, have the likely effect of increasing the fund's expense ratio. In addition, in order to make such distributions, the fund may have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action.

Please note that the distributions paid by the fund to shareholders are subject to recharacterization for tax purposes. The final tax treatment of these distributions is reported to shareholders on their 1099-DIV forms, which are mailed to shareholders after the close of each fiscal year. As noted in the shareholder letter, the fund has adopted a level rate distribution policy. Under this policy, the fund will pay distributions in excess of the fund's net investment company taxable income and this excess will be a tax-free return of capital distributed from the fund's assets. The fund's shareholders of record will be notified of the approximate amount of capital returned to shareholders for each distribution. 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.

Joseph M. Harvey was appointed as a portfolio manager of the fund in August 2004. He joined Cohen & Steers Capital Management, the fund's advisor, in 1992 and currently serves as its president. Mr. Harvey also serves as president of the advisor's parent company, Cohen & Steers, Inc. Prior to August 2003, he was a senior vice president and director of investment research for the advisor.

James S. Corl was appointed as a portfolio manager in December 2004. He joined the advisor in 1997 and currently serves as an executive vice president. Mr. Corl is also an executive vice president of the advisor's parent company, Cohen & Steers, Inc. Prior to that, Mr. Corl was a senior vice president of the advisor.

#### PRIVACY POLICY

The fund is committed to maintaining the privacy of its shareholders and to safeguarding their personal information. The following is provided to help you understand what personal information the fund collects, how we protect that information, and why in certain cases we may share this information with others.

The fund does not receive any personal information relating to shareholders who purchase shares through an intermediary that acts as the record owner of the shares. In the case of shareholders who are record owners of the fund, to conduct and process your business in an accurate and efficient manner, we must collect and maintain certain personal information about you. This is the information we collect on applications or other forms, and from the transactions you make with us.

The fund does not disclose any personal information about its shareholders or former shareholders to anyone, except as required or permitted by law or as is necessary to service shareholder accounts. We will share information with organizations, such as the fund's transfer agent, that assist the fund in carrying out its daily business operations. These organizations will use this

information only for purposes of providing the services required or as otherwise as may be required by law. These organizations are not permitted to share or use this information for any other purpose. In addition, the fund restricts access to personal information about its shareholders to employees of the advisor who have a legitimate business need for the information.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

MANAGEMENT OF THE FUND

The business and affairs of the fund are managed under the direction of the board of directors. The board of directors approves all significant agreements between the fund and persons or companies furnishing services to it, including the fund's agreements with its advisor, administrator, custodian and transfer agent. The management of the fund's day-to-day operations is delegated to its officers, the advisor and the fund's administrator, subject always to the investment objective and policies of the fund and to the general supervision of the board of directors.

The directors and officers of the fund and their principal occupations during the past five years are set forth below. The statement of additional information (SAI) includes additional information about fund directors and is available, without charge, upon request by calling 1-800-330-7348.

NAME, ADDRESS AND AGE(a)	POSITION(S) HELD WITH FUND	TERM OF OFFICE	PRINCIPAL OCCUPATION DURING PAST 5 YEARS (INCLUDING OTHER DIRECTORSHIPS HELD)	NUMBER OF FUNDS WITHIN FUND COM OVERSEEN BY DIR (INCLUDING THE
Interested Directors(1)				
Robert H. Steers ..... Age: 51	Director, chairman of the board, and secretary	2006	Co-chairman and co-chief executive officer of the advisor since 2003 and prior to that, chairman of the advisor. President of Cohen & Steers Securities, LLC, the fund's distributor.	14
Martin Cohen ..... Age: 55	Director, president and treasurer	2007	Co-chairman and co-chief executive officer of the advisor since 2003 and prior to that, president of the advisor. Vice president of Cohen & Steers Securities, LLC, the fund's distributor.	14

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Disinterested Directors

Bonnie Cohen(2) ..... Age: 61	Director	2005	Consultant. Prior thereto, Undersecretary of State, United States Department of State. Director of Wellsford Real Properties, Inc.	14
George Grossman ..... Age: 50	Director	2006	Attorney-at-law.	14

(table continued on next page)

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(a) The address for all directors is 757 Third Avenue, New York, NY 10017.

(1) 'Interested person,' as defined in the 1940 Act, of the fund because of affiliation with Cohen & Steers Capital Management, Inc., the fund's advisor.

(2) Martin Cohen and Bonnie Cohen are unrelated.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

(table continued from preceding page)

NAME, ADDRESS AND AGE (a)	POSITION(S) HELD WITH FUND	TERM OF OFFICE	PRINCIPAL OCCUPATION DURING PAST 5 YEARS (INCLUDING OTHER DIRECTORSHIPS HELD)	NUMBER OF FUNDS WITHIN FUND COM OVERSEEN BY DIR (INCLUDING THE
-----	-----	-----	-----	-----
Richard E. Kroon ..... Age: 62	Director	2005	Board member of Finlay Enterprises, Inc. (operator of department store fine jewelry leased departments), and several private companies; member of Investment Subcommittee, Monmouth University; retired Chairman and Managing Partner of Sprout Group venture capital funds, then an affiliate of Donaldson, Lufkin and Jenrette Securities Corporation; and former	14



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			chairman of the National Venture Capital Association.	
Richard J. Norman .....	Director	2007	Private investor. President of the Board of Directors of Maryland Public Television and board member of The Salvation Army. Prior thereto, investment representative of Morgan Stanley Dean Witter.	14
Age: 61				
Frank K. Ross .....	Director	2007	Board member of NCRIC Group, Inc. (insurance) and Pepco Holdings, Inc. (electric utility). Formerly, Midatlantic Area Managing Partner for Audit and Risk Advisory Services at KPMG LLP and Managing Partner of its Washington, DC office.	14
Age: 61				
Willard H. Smith, Jr. ...	Director	2005	Board member of Essex Property Trust, Inc., Highwoods Properties, Inc., Realty Income Corporation and Crest Net Lease, Inc. Managing director at Merrill Lynch & Co., Equity Capital Markets Division from 1983 to 1995.	14
Age: 68				
C. Edward Ward, Jr. ....	Director	2005	Member of the board of trustees of Manhattan College, Riverdale, New York. Formerly head of closed-end fund listings for the New York Stock Exchange.	14
Age: 58				

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(a) The address for each officer is 757 Third Avenue, New York, NY 10017.

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The officers of the fund (other than Messrs. Cohen and Steers, whose biographies are provided above), their addresses, their ages, and their principal occupations for at least the past five years are set forth below.

NAME, ADDRESS AND AGE(a) -----	POSITION(S) HELD WITH FUND -----	PRINCIPAL OCCUPATION DURING PAST 5 YEARS -----
Joseph M. Harvey ..... Age: 40	Vice president	President of the advisor since 2003 and, prior to that, senior vice president and director of investment research of the advisor.
Adam M. Derechin ..... Age: 40	Vice president and assistant treasurer	Chief operating officer of the advisor since 2003 and prior to that, senior vice president of the advisor.
Lawrence B. Stoller ..... Age: 41	Assistant secretary	Senior vice president and general counsel of the advisor, since 1999; Chief legal officer of Cohen & Steers Securities, LLC. Prior to that, associate general Counsel, Neuberger Berman Management, Inc. (money manager); and assistant general counsel, The Dreyfus Corporation (money manager).
John E. McLean ..... Age: 34	Chief compliance officer	Vice president and associate general counsel of Cohen & Steers Capital Management since September 2003. Prior to that, vice president, Law & Regulation, J. & W. Seligman & Co. Incorporated (money manager); and associate, Battle Fowler LLP (law firm).

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(a) The address for each officer is 757 Third Avenue, New York, NY 10017.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

MEET THE COHEN & STEERS FAMILY OF OPEN-END FUNDS:

FOR HIGH CURRENT INCOME:

COHEN & STEERS  
REALTY INCOME FUND

DESIGNED FOR INVESTORS SEEKING A HIGH  
DIVIDEND YIELD AND CAPITAL APPRECIATION,  
INVESTING PRIMARILY IN REITS  
A, B, C AND I SHARES AVAILABLE

FOR TOTAL RETURN:

COHEN & STEERS  
REALTY SHARES

DESIGNED FOR INVESTORS SEEKING MAXIM  
TOTAL RETURN THROUGH BOTH CURRENT IN  
AND CAPITAL APPRECIATION, INVESTING  
PRIMARILY IN REITS

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SYMBOLS: CSEIX, CSBIX, CSCIX, CSDIX

SYMBOL: CSRSX  
ALSO AVAILABLE: COHEN & STEERS  
INSTITUTIONAL REALTY SHARES (CSRIX)  
REQUIRES A HIGHER MINIMUM PURCHASE,  
OFFERS A LOWER TOTAL EXPENSE RATIO

FOR TOTAL RETURN:

FOR CAPITAL APPRECIATION:

COHEN & STEERS  
UTILITY FUND

COHEN & STEERS  
REALTY FOCUS FUND

DESIGNED FOR INVESTORS SEEKING MAXIMUM  
TOTAL RETURN THROUGH BOTH CURRENT INCOME  
AND CAPITAL APPRECIATION, INVESTING  
PRIMARILY IN UTILITIES  
A, B, C AND I SHARES AVAILABLE  
SYMBOLS: CSUAX, CSUBX, CSUCX, CSUIX

DESIGNED FOR INVESTORS SEEKING MAXIMUM  
CAPITAL APPRECIATION, INVESTING IN A  
LIMITED NUMBER OF REITS AND OTHER RE  
ESTATE COMPANIES  
CONCENTRATED, HIGHLY FOCUSED PORTFOL  
A, B, C AND I SHARES AVAILABLE  
SYMBOLS: CSFAX, CSFBX, CSFCX, CSSPX

FOR MORE INFORMATION ABOUT ANY COHEN & STEERS FUND  
OR TO OBTAIN A PROSPECTUS PLEASE CONTACT US AT:  
1-800-330-7348, OR VISIT OUR WEB SITE AT COHENANDSTEERS.COM

PLEASE CONSIDER THE INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES OF THE  
FUND CAREFULLY BEFORE INVESTING. THE PROSPECTUS CONTAINS THIS AND OTHER  
INFORMATION ABOUT THE FUND. PLEASE READ THE PROSPECTUS CAREFULLY  
BEFORE INVESTING.

COHEN & STEERS SECURITIES, LLC, DISTRIBUTOR

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32

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

OFFICERS AND DIRECTORS

KEY INFORMATION

Robert H. Steers  
Director and chairman

INVESTMENT MANAGER  
Cohen & Steers Capital Management, Inc.  
757 Third Avenue  
New York, NY 10017  
(212) 832-3232

Martin Cohen  
Director and president

Bonnie Cohen  
Director

FUND SUBADMINISTRATOR AND CUSTODIAN  
State Street Bank and Trust Company  
225 Franklin Street  
Boston, MA 02110

George Grossman  
Director

Richard E. Kroon  
Director

TRANSFER AGENT -- COMMON SHARES  
Equiserve Trust Company  
250 Royall Street  
Canton, MA 02021

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Richard J. Norman  
Director

(800) 426-5523

Frank K. Ross  
Director

TRANSFER AGENT -- PREFERRED SHARES  
The Bank of New York  
100 Church Street  
New York, NY 10007

Willard H. Smith Jr.  
Director

LEGAL COUNSEL  
Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, NY 10017

C. Edward Ward, Jr.  
Director

Adam Derechin  
Vice president and assistant treasurer

New York Stock Exchange Symbol: RQI  
Web site: cohenandsteers.com

Joseph M. Harvey  
Vice president

This report is for shareholder information. This is not a prospectus intended for use in the purchase or sale of fund shares. Past performance is of course no guarantee of future results and your investment may be worth more or less at the time you sell.

Lawrence B. Stoller  
Assistant secretary

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33

COHEN & STEERS  
QUALITY INCOME REALTY FUND

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ANNUAL REPORT  
DECEMBER 31, 2004

COHEN & STEERS  
QUALITY INCOME REALTY FUND  
747 THIRD AVENUE  
NEW YORK, NY 10017

Item 2. Code of Ethics.

The registrant has adopted a Code of Ethics that applies to its Principal Executive Officer and Principal Financial Officer. The registrant undertakes to provide to any person without charge, upon request, a copy of the Code of

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Ethics. Such request can be made by calling 800-330-7348 or writing to the Secretary of the registrant, 757 Third Avenue, New York, NY 10017.

### Item 3. Audit Committee Financial Expert.

The registrant's Board has determined that Frank K. Ross, a member of the registrant's Audit Committee, is an "audit committee financial expert" and "independent," as such terms are defined in this Item.

### Item 4. Principal Accountant Fees and Services.

(a) - (d) Aggregate fees billed to the registrant for the last two fiscal years for professional services rendered by the registrant's principal accountant were as follows:

	2004	2003
	-----	-----
Audit Fees	\$80,000	\$74,151
Audit-Related Fees	15,000	40,000
Tax Fees	12,600	9,300
All Other Fees	--	--

Audit-related fees were billed in connection with the preparation and issuance of certification reports to rating agencies relating to the registrant's preferred shares. Tax fees were billed in connection with the preparation of tax returns, calculation and designation of dividends and other miscellaneous tax services.

Aggregate fees billed by the registrant's principal accountant for the last two fiscal years for non-audit services provided to the registrant's investment adviser (not including a sub-adviser whose role is primarily portfolio management and is subcontracted or overseen by another investment adviser) and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registered investment company, where the engagement relates directly to the operations and financial reporting of the registrant, were as follows:

	2004	2003
	-----	-----
Audit-Related Fees	--	--
Tax Fees	--	--

All Other Fees	\$62,500	\$49,500
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These other fees were billed in connection with internal control reviews and AIMR performance reviews.

(e) (1) The Audit Committee is required to pre-approve audit and non-audit services performed for the registrant by the principal accountant. The Audit Committee also is required to pre-approve non-audit services performed by the registrant's principal accountant for the registrant's investment adviser and any sub-adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by or under common control with the registrant's investment adviser that provides ongoing services to the registrant, if the engagement for services relates directly to the operations and financial reporting of the registrant.

The audit committee may delegate pre-approval authority to one or more of its members who are independent members of the board of directors of the registrant. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee may not delegate its responsibility to pre-approve services to be performed by the registrant's principal accountant for the investment adviser.

(e) (2) No services included in (b) - (d) above were approved by the Audit Committee pursuant to paragraphs (c) (7) (i) (C) of Rule 2-01 of Regulation S-X.

(f) Not applicable.

(g) For the fiscal years ended December 31, 2004 and December 31, 2003, the aggregate fees billed by the registrant's principal accountant for non-audit services rendered to the registrant and for non-audit services rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by or under common control with the registrant's investment adviser that provides ongoing services to the registrant were \$95,600 and \$98,800, respectively.

(h) The registrant's audit committee considered whether the provision of non-audit services that were rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by or under common control with the registrant's investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c) (7) (ii) of Rule 2-01 of Regulation S-X was compatible with maintaining the principal accountant's independence.

### Item 5. Audit Committee of Listed Registrants.

The registrant has a standing audit committee established in accordance with Section 3(a) (58) (A) of the Exchange Act. The members of the committee are Frank K. Ross (chairman), Bonnie

Cohen, George Grossman, Richard E. Kroon, Richard J. Norman, Willard H. Smith Jr. and C. Edward Ward.

Item 6. Schedule of Investments.

Included in Item 1 above.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

COHEN & STEERS CAPITAL MANAGEMENT, INC.  
STATEMENT OF POLICIES AND PROCEDURES REGARDING THE VOTING OF SECURITIES

This statement sets forth the policies and procedures that Cohen & Steers Capital Management, Inc. ("C&S") follows in exercising voting rights with respect to securities held in our client portfolios. All proxy-voting rights that are exercised by C&S shall be subject to this Statement of Policy and Procedures.

I. Objectives

Voting rights are an important component of corporate governance. C&S has three overall objectives in exercising voting rights:

A. Responsibility. C&S shall seek to ensure that there is an effective means in place to hold companies accountable for their actions. While management must be accountable to its board, the board must be accountable to a company's shareholders. Although accountability can be promoted in a variety of ways, protecting shareholder voting rights may be among our most important tools.

B. Rationalizing Management and Shareholder Concerns. C&S seeks to ensure that the interests of a company's management and board are aligned with those of the company's shareholders. In this respect, compensation must be structured to reward the creation of shareholder value.

C. Shareholder Communication. Since companies are owned by their shareholders, C&S seeks to ensure that management effectively communicates with its owners about the company's business operations and financial performance. It is only with effective communication that shareholders will be able to assess the performance of management and to make informed decisions on when to buy, sell or hold a company's securities.

II. General Principles

In exercising voting rights, C&S shall conduct itself in accordance with the general principles set forth below.

1. The ability to exercise a voting right with respect to a security is a valuable right and, therefore, must be viewed as part of the asset itself.
2. In exercising voting rights, C&S shall engage in a careful evaluation of issues that may materially affect the rights of shareholders and the value of the security.
3. Consistent with general fiduciary principles, the exercise of voting

rights shall always be conducted with reasonable care, prudence and diligence.

4. In exercising voting rights on behalf of clients, C&S shall conduct itself in the same manner as if C&S were the constructive owner of the securities.
5. To the extent reasonably possible, C&S shall participate in each shareholder voting opportunity.
6. Voting rights shall not automatically be exercised in favor of management-supported proposals.
7. C&S, and its officers and employees, shall never accept any item of value in consideration of a favorable proxy voting decision.

### III. General Guidelines

Set forth below are general guidelines that C&S shall follow in exercising proxy voting rights:

#### Prudence

In making a proxy voting decision, C&S shall give appropriate consideration to all relevant facts and circumstances, including the value of the securities to be voted and the likely effect any vote may have on that value. Since voting rights must be exercised on the basis of an informed judgment, investigation shall be a critical initial step.

#### Third Party Views

While C&S may consider the views of third parties, C&S shall never base a proxy voting decision solely on the opinion of a third party. Rather, decisions shall be based on a reasonable and good faith determination as to how best to maximize shareholder value.

#### Shareholder Value

Just as the decision whether to purchase or sell a security is a matter of judgment, determining whether a specific proxy resolution will increase the market value of a security is a matter of

judgment as to which informed parties may differ. In determining how a proxy vote may affect the economic value of a security, C&S shall consider both short-term and long-term views about a company's business and prospects, especially in light of our projected holding period on the stock (e.g., C&S may discount long-term views on a short-term holding).

### IV. Specific Issues

Set forth below are guidelines as to how specific proxy voting issues shall be analyzed and assessed. While these guidelines will provide a framework for our decision making process, the mechanical application of these guidelines can never address all proxy voting decisions. When new issues arise or old issues



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present nuances not encountered before, C&S must be guided by its reasonable judgment to vote in a manner that C&S deems to be in the best interests of its clients.

### A. Stock-Based Compensation

Approval of Plans or Plan Amendments. By their nature, compensation plans must be evaluated on a case-by-case basis. As a general matter, C&S always favors compensation plans that align the interests of management and shareholders. C&S generally approves compensation plans under the following conditions:

10% Rule. The dilution effect of the newly authorized shares, plus the shares reserved for issuance in connection with all other stock related plans, generally should not exceed 10%.

Exercise Price. The minimum exercise price of stock options should be at least equal to the market price of the stock on the date of grant.

Plan Amendments. Compensation plans should not be materially amended without shareholder approval.

Non-Employee Directors. Awards to non-employee directors should not be subject to management discretion, but rather should be made under non-discretionary grants specified by the terms of the plan.

Repricing/Replacement of Underwater Options. Stock options generally should not be re-priced, and never should be re-priced without shareholder approval. In addition, companies should not issue new options, with a lower strike price, to make up for previously issued options that are substantially underwater. C&S will vote against the election of any slate of directors that, to its knowledge, has authorized a company to re-price or replace underwater options during the most recent year without shareholder approval.

Reload/Evergreen Features. We will generally vote against plans that enable the issuance of reload options and that provide an automatic share replenishment ("evergreen") feature.

Measures to Increase Executive Long-Term Stock Ownership. We support measures to increase the long-term stock ownership by a company's executives. These include requiring senior executives to hold a minimum amount of stock in a company (often expressed as a percentage of annual compensation), requiring stock acquired through option exercise to be held for a certain minimum amount of time, and issuing restricted stock awards instead of options. In this respect, we support the expensing of option grants because it removes the incentive of a company to issue options in lieu of restricted stock. We also support employee stock purchase plans, although we generally believe the discounted purchase price should be at least 85% of the current market price.

Vesting. Restricted stock awards normally should vest over at least a two-year period.

Other stock awards. Stock awards other than stock options and restricted stock awards should be granted in lieu of salary or a cash bonus, and the number of shares awarded should be reasonable.

B. Change of Control Issues

While we recognize that a takeover attempt can be a significant distraction for the board and management to deal with, the simple fact is that the possibility of a corporate takeover keeps management focused on maximizing shareholder value. As a result, C&S opposes measures that are designed to prevent or obstruct corporate takeovers because they can entrench current management. The following are C&S's guidelines on change of control issues:

Shareholder Rights Plans. C&S acknowledges that there are arguments for and against shareholder rights plans, also known as "poison pills." Companies should put their case for rights plans to shareholders. We generally vote against any directors who, without shareholder approval, to our knowledge have instituted a new poison pill plan, extended an existing plan, or adopted a new plan upon the expiration of an existing plan during the past year.

Golden Parachutes. C&S opposes the use of accelerated employment contracts that result in cash grants of greater than three times annual compensation (salary and bonus) in the event of termination of employment following a change in control of a company. In general, the guidelines call for voting against "golden parachute" plans because they impede potential takeovers that shareholders should be free to consider. We generally withhold our votes at the next shareholder meeting for directors who to our knowledge approved golden parachutes.

Approval of Mergers - C&S votes against proposals that require a super-majority of shareholders to approve a merger or other significant business combination. We support proposals that seek to lower super-majority voting requirements.

C. Routine Issues

Director Nominees in a Non-Contested Election - C&S generally votes in favor of management proposals on director nominees.

Director Nominees in a Contested Election - By definition, this type of board candidate or slate runs for the purpose of seeking a significant change in corporate policy or control. Therefore, the economic impact of the vote in favor of or in opposition to that director or slate must be analyzed using a higher standard normally applied to changes in control. Criteria for evaluating director nominees as a group or individually should include: performance; compensation, corporate governance provisions and takeover activity; criminal activity; attendance at meetings; investment in the company; interlocking directorships; inside, outside and independent directors; whether the chairman and CEO titles are held by the same person; number of other board seats; and other experience. It is impossible to have a general policy regarding director nominees in a contested election.

Board Composition - C&S supports the election of a board that consists of at least a majority of independent directors. We generally withhold our support for non-independent directors who serve on a company's audit, compensation and/or nominating committees. We also generally withhold support for director candidates who have not attended a sufficient number of board or committee meetings to effectively discharge their duties as directors.

Classified Boards - Because a classified board structure prevents shareholders from electing a full slate of directors at annual meetings, C&S generally votes against classified boards. We vote in favor of shareholder proposals to declassify a board of directors unless a company's charter or governing corporate law allows shareholders, by written consent, to remove a majority of directors at any time, with or without cause.

Barriers to Shareholder Action - We vote to support proposals that lower the barriers to shareholder action. This includes the right of shareholders to call a meeting and the right of shareholders to act by written consent.

Cumulative Voting - Having the ability to cumulate our votes for the election of directors - that is, cast more than one vote for a director about whom they feel strongly - generally increases shareholders' rights to effect change in the management of a corporation. We generally support, therefore, proposals to adopt cumulative voting.

Ratification of Auditors - Votes generally are cast in favor of proposals to ratify an independent auditor, unless there is a reason to believe the auditing firm is no longer performing its required duties or there are exigent circumstances requiring us to vote against the approval of the recommended auditor. For example, our general policy is to vote against an independent auditor that receives more than 50% of its total fees from a company for non-audit services.

#### D. Stock Related Items

Increase Additional Common Stock - C&S's guidelines generally call for approval of increases in authorized shares, provided that the increase is not greater than three times the number of

shares outstanding and reserved for issuance (including shares reserved for stock-related plans and securities convertible into common stock, but not shares reserved for any poison pill plan).

Votes generally are cast in favor of proposals to authorize additional shares of stock except where the proposal:

1. creates a blank check preferred stock; or
2. establishes classes of stock with superior voting rights.

Blank Check Preferred Stock - Votes generally are cast in opposition to management proposals authorizing the creation of new classes of preferred stock with unspecific voting, conversion, distribution and other rights, and management proposals to increase the number of authorized blank check preferred shares. C&S may vote in favor of this type of proposal when it receives assurances to its reasonable satisfaction that (i) the preferred stock was authorized by the board for the use of legitimate capital formation purposes and not for anti-takeover purposes, and (ii) no preferred stock will be issued with voting power that is disproportionate to the economic interests of the preferred stock. These representations should be made either in the proxy statement or in a separate letter from the company to C&S.

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Preemptive Rights - Votes are cast in favor of shareholder proposals restoring limited preemptive rights.

Dual Class Capitalizations - Because classes of common stock with unequal voting rights limit the rights of certain shareholders, C&S votes against adoption of a dual or multiple class capitalization structure.

### E. Social Issues

C&S believes that it is the responsibility of the board and management to run a company on a daily basis. With this in mind, in the absence of unusual circumstances, we do not believe that shareholders should be involved in determining how a company should address broad social and policy issues. As a result, we generally vote against these types of proposals, which are generally initiated by shareholders, unless we believe the proposal has significant economic implications.

### F. Other Situations

No set of guidelines can anticipate all situations that may arise. Our portfolio managers and analysts will be expected to analyze proxy proposals in an effort to gauge the impact of a proposal on the financial prospects of a company, and vote accordingly. These policies are intended to provide guidelines for voting. They are not, however, hard and fast rules because corporate governance issues are so varied.

### V. Proxy Voting Procedures

C&S shall maintain a record of all voting decisions for the period required by applicable laws. In each case in which C&S votes contrary to the stated policies set forth in these guidelines, the record shall indicate the reason for such a vote.

The Investment Committee of C&S shall have responsibility for voting proxies, under the supervision of the Director of Research. The Director of Research's designee shall be responsible for ensuring that the Investment Committee is aware of all upcoming proxy voting opportunities. The Designee shall ensure that proxy votes are properly recorded and that the requisite information regarding each proxy voting opportunity is maintained. The General Counsel of C&S shall have overall responsibility for ensuring that C&S complies with all proxy voting requirements and procedures.

### VI. Recordkeeping

The Designee shall be responsible for recording and maintaining the following information with respect to each proxy voted by C&S:

- \* Name of the company
- \* Ticker symbol
- \* CUSIP number

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- \* Shareholder meeting date
- \* Brief identification of each matter voted upon
- \* Whether the matter was proposed by management or a shareholder
- \* Whether C&S voted on the matter
- \* If C&S voted, then how C&S voted
- \* Whether C&S voted with or against management

The General Counsel of C&S shall be responsible for maintaining and updating these Policies and Procedures, and for maintaining any records of written client requests for proxy voting information and documents that were prepared by C&S and were deemed material to making a voting decision or that memorialized the basis for the decision.

C&S shall rely on the SEC's EDGAR filing system with respect to the requirement to maintain proxy materials regarding client securities.

### VII. Conflicts of Interest

There may be situations in which C&S may face a conflict between its interests and those of its clients or fund shareholders. Potential conflicts are most likely to fall into three general categories:

\* **Business Relationships** - This type of conflict would occur if C&S or an affiliate has a substantial business relationship with the company or a proponent of a proxy proposal relating to the company (such as an employee group) such that failure to vote in favor of management (or the proponent) could harm the relationship of C&S or its affiliate with the company or

proponent. In the context of C&S, this could occur if Cohen & Steers Capital Advisors, a wholly owned subsidiary of C&S ("Capital Advisors"), has a material business relationship with a company that C&S has invested in on behalf of its clients, and C&S is encouraged to vote in favor of management as an inducement to acquire or maintain the Capital Advisors relationship.

\* **Personal Relationships** - C&S or an affiliate could have a personal relationship with other proponents of proxy proposals, participants in proxy contests, corporate directors or director nominees.

\* **Familial Relationships** - C&S or an affiliate could have a familial relationship relating to a company (e.g., spouse or other relative who serves as a director or nominee of a public company).

The next step is to identify if a conflict is material. A material matter is one that is reasonably likely to be viewed as important by the average shareholder. Materiality will be judged under a two-step approach:

\* **Financial Based Materiality** - C&S presumes a conflict to be non-material unless it involves at least \$500,000.

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\* Non-Financial Based Materiality - Non-financial based materiality would impact the members of the C&S Investment Committee, who are responsible for making proxy voting decisions.

Finally, if a material conflict exists, C&S shall vote in accordance with the advice of a proxy voting service. C&S currently uses ISS to provide advice on proxy voting decisions.

The General Counsel of C&S shall have responsibility for supervising and monitoring conflicts of interest in the proxy voting process according to the following process:

1. Identifying Conflicts - The General Counsel of C&S is responsible for monitoring the relationships of Capital Advisors for purposes of C&S's Inside Information Policies and Procedures. The General Counsel of C&S (or his designee) maintains a watch list and a restricted list. The Investment Committee is unaware of the content of the watch list and therefore it is only those companies on the restricted list, which is made known to everyone at C&S, for which potential concerns might arise. When a company is placed on the restricted list, the General Counsel of C&S (or his designee) shall promptly inquire of the Designee as to whether there is a pending proxy voting opportunity with respect to that company, and continue to inquire on a weekly basis until such time as the company is no longer included on the restricted list. When there is a proxy voting opportunity with respect to a company that has been placed on the restricted list, the General Counsel of C&S shall inform the Investment Committee that no proxy vote is to be submitted for that company until the General Counsel completes the conflicts analysis.

For purposes of monitoring personal or familial relationships, the General Counsel of C&S (or his designee) shall receive on at least an annual basis from each member of the Investment

Committee written disclosure of any personal or familial relationships with public company directors that could raise potential conflict of interest concerns. Investment Committee members also shall agree in writing to advise the General Counsel of C&S if (i) there are material changes to any previously furnished information, (ii) a person with whom a personal or familial relationship exists is subsequently nominated as a director or (iii) a personal or familial relationship exists with any proponent of a proxy proposal or a participant in a proxy contest.

2. Identifying Materiality - The General Counsel of C&S (or his designee) shall be responsible for determining whether a conflict is material. He shall evaluate financial based materiality in terms of both actual and potential fees to be received. Non-financial based items impacting a member of the Investment Committee shall be presumed to be material.

3. Communication with Investment Committee; Voting of Proxy - If the General Counsel of C&S determines that the relationship between Capital Advisors and a company is financially material, he shall communicate that information to the members of the Investment Committee and instruct them, and the Designee, that C&S will vote its proxy based on the advice of ISS or other consulting firm then engaged by C&S. Any personal or familial relationship, or any other business relationship, that exists between a company and any member of the Investment

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Committee shall be presumed to be material, in which case C&S again will vote its proxy based on the advice of ISS or other consulting firm then engaged by C&S. The fact that a member of the Investment Committee personally owns securities issued by a company will not disqualify C&S from voting common stock issued by that company, since the member's personal and professional interests will be aligned.

In cases in which C&S will vote its proxy based on the advice of ISS or other consulting firm then engaged by C&S, the General Counsel of C&S (or his designee) shall be responsible for ensuring that the Designee votes proxies in this manner. The General Counsel of C&S will maintain a written record of each instance when a conflict arises and how the conflict is resolved (e.g., whether the conflict is judged to be material, the basis on which the materiality is decision is made and how the proxy is voted).

### VIII. Cohen & Steers Funds

Proxies relating to portfolio securities held by any Cohen & Steers Fund shall be voted in accordance with this Statement of Policies and Procedures. For this purpose, the Board of Directors of the Cohen & Steers Funds has delegated to C&S the responsibility for voting proxies on behalf of the Funds. The General Counsel of C&S shall make an annual presentation to the Board regarding this Statement of Policy and Procedures, including whether any revisions are recommended, and shall report to the Board at each regular, quarterly meeting with respect to any conflict of interest situation that arose regarding the proxy voting process.

### IV. Annual Review; Reporting

The chief compliance officer (CCO) of C&S (or his designee) shall conduct an annual review to assess compliance with these policies and procedures. This review will include sampling a

limited number of proxy votes during the prior year to determine if they were consistent with these policies and procedures. The results of this review will be reported to the General Counsel of C&S and the CCO of the Funds.

Any violations of these policies and procedures shall be reported to the General Counsel or CCO of C&S. If the violation relates to any Cohen & Steers Fund, the General Counsel or CCO of C&S shall report such violation to the CCO of the Funds.

### Item 8. Portfolio Managers of Closed-End Investment Companies.

Not applicable.

### Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

Not applicable.

### Item 10. Submission of Matters to a Vote of Security Holders.

Not applicable.

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Item 11. Controls and Procedures.

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the registrant in this Form N-CSR was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of this report.

(b) There were no changes in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12. Exhibits.

(a) (1) Not applicable.

(a) (2) Certifications of principal executive officer and principal financial officer as required by Rule 30a-2(a) under the Investment Company Act of 1940.

(b) Certifications of chief executive officer and chief financial officer as required by Rule 30a-2(b) under the Investment Company Act of 1940.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

By: /s/ Robert H. Steers

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Name: Robert H. Steers  
Title: Chairman

Date: March 8, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Robert H. Steers

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Name: Robert H. Steers  
Title: Chairman, Secretary and  
principal executive officer

By: /s/ Martin Cohen

-----  
Name: Martin Cohen  
Title: President, Treasurer  
and principal financial officer



Date: March 8, 2005

STATEMENT OF DIFFERENCES

The section symbol shall be expressed as..... 'SS'  
The division sign shall be expressed as..... [div]