COHEN & STEERS QUALITY INCOME REALTY FUND INC
Form N-CSR
March 08, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-10481

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

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

Adam M. Derechin

Cohen & Steers Capital Management, Inc.

280 Park Avenue

New York, New York 10017
(Name and address of agent for service)

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

Date of fiscal year end: December 31

Date of reporting period: December 31, 2009

Item 1. Reports to Stockholders.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

To Our Shareholders:

We would like to share with you our report for the year ended December 31, 2009. The net asset value (NAV) at that date was $7.44 per common share. The Fund's common stock is traded on the New York Stock Exchange (NYSE) and its share price can differ from its NAV; at year end, the Fund's closing price on the NYSE was $6.07.

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

	Six Months Ended December 31, 2009	Year Ended December 31, 2009
Cohen and Steers Quality Income Realty Fund at Market Value[a]	55.05%	77.83%
Cohen and Steers Quality Income Realty Fund at Net Asset Value[a]	79.80%	54.24%
FTSE NAREIT Equity REIT Index[b]	45.80%	27.99%
S&P 500 Index[b]	22.59%	26.46%
Blended benchmark 80% FTSE NAREIT Equity REIT Index, 20% Merrill Lynch REIT Preferred Index[b]	41.23%	31.55%

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

The Fund may pay distributions in excess of its investment company taxable income and net realized capital gains. This excess would be a "return of capital" distributed from the Fund's assets. Distributions of capital decrease the Fund's total assets and, therefore, could have the effect of increasing the Fund's expense ratio. In addition, in order to make these distributions, the Fund may have to sell portfolio securities at a less than opportune time.

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

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Investment Review

REITs were a tale of two markets in 2009. The year's early months were characterized by continued fallout from the post-Lehman Brothers financial panic, a blowout in risk premiums and declining credit availability. The asset class sold off on concerns about REITs' limited access to capital amid near-frozen credit markets and limited transparency on property value estimates.

Broader financial markets, including REITs, began to stabilize and rebound when the government provided clarity on the means and costs of backstopping the financial system. This broke the vicious negative feedback loop between the capital markets and the real economy and paved the way for the market rally that followed.

REIT recapitalization lifted share prices

REITs began to raise significant new capital in March, which reassured investors that they could strengthen their balance sheets, meet debt maturities and take advantage of buying opportunities. In total, public real estate companies raised $20 billion of new equity during the year, and Cohen & Steers was a cornerstone investor in many of the offerings. Recapitalization revealed the pent-up investor demand in the asset class and drove significant spread tightening in the REIT unsecured bond market.

REITs surged in the third quarter as easing liquidity concerns lifted the asset class to its best-ever quarterly return. With access to multiple sources of capital, companies could extend debt maturities and, in some cases, move into a more offensive (acquisitive) posture. The pace of the rally slowed in the fourth quarter, however, when investors' appetite for risk abated and unease over high unemployment grew.

Hotel companies were top performers

The hotel sector (with a total return of +67.2%)[c] led all property types in 2009. Their short leases and ability to respond quickly to changing economic conditions began to be discounted amid signs of economic stabilization and likely future economic growth.

Regional malls (+63.0%) turned in a better-than-expected performance, benefiting from recapitalization and stabilization in retail sales and increased consumer confidence. Simon Property Group, the country's largest mall operator, was the first major U.S. REIT to issue new equity. Office REITs (+35.6%) were aided by less-severe job losses in New York and a V-shaped recovery that anticipated a return to profitability by the financial services industry. In both categories, cap rates declined in response to increasing global demand for class-A properties.

Apartment REITs (+30.4%) were hurt early in the year by increased job losses and declines in market rents, but improved in the third quarter on expectations of stabilization in fundamentals in 2010 and growth in 2011.

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

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Shopping centers declined

The shopping center sector (1.7%) was the only REIT property group to post a negative total return during the year. Typically considered defensive because of their consumer staples anchors (supermarkets and drug stores), shopping centers' smaller retailers proved to be highly sensitive to the economic downturn. In news, shopping center owner Developers Diversified Realty completed the first commercial mortgage-backed securities issuance in more than a year, and it was the first real estate debt offering backed by the Term Asset-Backed Securities Loan Facility.

Health care REITs (+24.6%) and self storage companies (+8.4%) trailed the benchmark, as defensive sectors lagged their more economically sensitive counterparts during 2009's rally.

Preferreds had positive returns

Preferred securities also rebounded. REIT preferreds significantly outperformed most preferreds issued by non-real estate companies, aided by the factors that helped real estate common shares. REITs did not issue preferreds in 2009, favoring the common stock and bond deals that contributed to the supportive investment backdrop.

All securities within the Merrill Lynch REIT Preferred Index (which had a total return of +42.1% for the year) had positive returns, led by those in the office/industrial and shopping center sectors. Self storage had a strong absolute gain but underperformed as investors favored more leveraged companies amid an increased appetite for risk.

Three closed-end funds merged

After the close of business on December 18, 2009, Cohen & Steers Advantage Income Realty Fund, Inc. (NYSE:RLF) and Cohen & Steers Premium Income Realty Fund, Inc. (NYSE:RPF) merged into Cohen & Steers Quality Income Realty Fund, Inc. (NYSE:RQI). The three funds had parallel investment strategies, and the merged fund is expected to achieve better economies of scale. For more information, please see Note 9 in the Notes to Financial Statements.

Proposed merger of RWF and RQI

At a special meeting on November 24, 2009, the shareholders of the Fund approved the merger of the Cohen & Steers Worldwide Realty Income Fund, Inc. (RWF) into the Fund. The board believes merging the funds would benefit shareholders through lower expenses and greater operating efficiencies. However, as of this writing, an insufficient number of RWF's shareholder votes have been submitted to approve the merger, and RWF continues to solicit votes to approve the proposal. For more information, see Note 9 in the Notes to Financial Statements.

Fund performance

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

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The Fund's market price rose 77.8% in the period. This reflected a general narrowing in closed-end funds' discounts to their underlying NAVs. Discounts for most funds reached historically wide levels in 2008, but narrowed considerably in 2009.

In terms of security selection, the Fund's performance on a NAV basis compared to its benchmark was aided by its allocation to REIT preferred securities (preferreds are not included in the NAREIT index), which posted strong returns in both absolute terms and compared with the broad REIT preferred and equity markets.

The Fund's REIT equity holdings outperformed the NAREIT index on an unleveraged basis; stock selection in the health care, apartment, office and industrial sectors contributed to relative return, as did our overweight in the office sector. Factors that hindered relative return included our overweight in hotel companies during periods when they underperformed the index. Stock selection in the regional mall sector also detracted from performance, although our beneficial overweight in the high-performing sector more than offset the effect.

Investment Outlook

We expect 2010 to be a year of better-than-expected economic growth and continued stabilization in fundamentals. Although there are concerns about the eventual cost of the government stimulus monetary tightening, higher taxes and the effects of fiscal stimulus we believe the recovery will prove self-sustaining and continue into 2011.

The new year may well be one in which REITs begin to take advantage of significant acquisition opportunities. While the environment is not so distressed as to create dysfunction, well-capitalized REITs with an operating platform will likely have attractive opportunities to create value and generate above-average cash flow growth. During the latter half of 2010 and into 2011, we expect the benefits of economic recovery and growth to translate into occupancy stabilization and selective rent increases in many commercial real estate markets.

From a portfolio standpoint, we currently favor economically sensitive sectors. On a sector-specific basis, we believe that shopping centers, hotels and self-storage REITs will outperform. Office REITs should benefit from low supply and stabilization in jobs, although we believe most of this dynamic is already priced into company valuations. While we expect apartment company fundamentals to improve with job growth and demographic shifts, we remain cautious because of their less favorable valuations.

We expect to maintain our focus on REITs with healthy balance sheets but with a particular focus on entrepreneurial management teams that have the acumen to create, rather than wait for, unique opportunities.

Regarding REIT preferred securities, we continue to find good value in the market and believe that many investors should be attracted by the historically high and stable income offered by these securities. Preferreds could play an increased role in raising capital for acquisition opportunities that arise. Given the current strong demand for REIT preferred paper, we expect any new supply to be greeted warmly.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

Sincerely,

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

THOMAS N. BOHJALIAN

Portfolio Manager

The views and opinions in the preceding commentary are subject to change. This material represents an assessment of the market environment at a specific point in time, should not be relied upon as investment advice and is not intended to predict or depict performance of any investment.

Visit Cohen & Steers online at cohenandsteers.com

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

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

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

Our Leverage Strategy
(Unaudited)

Our current leverage strategy utilizes borrowings up to the maximum permitted by the 1940 Act to provide additional capital for the Fund, with an objective of increasing the net income available for shareholders. As of December 31, 2009, leverage represented 34%[a] of the Fund's managed assets.

It has been our philosophy to utilize interest rate swap transactions to seek to reduce the interest rate risk inherent in our utilization of leverage. Considering that borrowings have variable interest rate payments, we seek to lock in those rates on a significant portion of this additional capital through interest rate swap agreements (where we effectively convert our variable rate obligation to a fixed rate obligation for the term of the swap agreements). Specifically, as of December 31, 2009, we have fixed the rate on 50% of our borrowings at an average interest rate of 3.6% for an average remaining period of 3.7 years (when we first entered into the swaps, the average term was 5.6 years). Locking in a significant portion of our leveraging costs is designed to protect the dividend-paying ability of the Fund. The use of leverage increases the volatility of the Fund's net asset value in both up and down markets. However, we believe that locking in a portion of the Fund's leveraging costs for the term of the swap agreements partially protects the Fund's expenses from an increase in short-term interest rates.

Leverage Facts[b]

Leverage (as a % of managed assets)[a]	34%
% Fixed Rate	50%
% Variable Rate	50%
Weighted Average Rate on Swaps	3.6%
Weighted Average Term on Swaps	3.7 years
Current Rate on Debt[c]	1.3%

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

[a] On June 1, 2009, the Securities and Exchange Commission (SEC) issued an order (the "Order") to the Fund providing an exemption from Section 18 of the 1940 Act. The Order temporarily permits the Fund to maintain 200% asset coverage for debt used to replace auction market preferred securities (AMPS) rather than 300% asset coverage required by Section 18 for debt. The exemptive relief expires on October 31, 2010.

[b] Data as of December 31, 2009. Information is subject to change.

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

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

DECEMBER 31, 2009

Top Ten Holdings[a]
(Unaudited)

Security	Value	% of Managed Assets
Simon Property Group	$ 82,145,402	7.6%
ProLogis	41,229,475	3.8
Public Storage	40,997,450	3.8
Host Hotels & Resorts	37,451,259	3.4
HCP	35,707,826	3.3
Vornado Realty Trust	34,912,789	3.2
Equity Residential	32,616,921	3.0
Macerich Co.	32,059,850	3.0
Boston Properties	31,533,698	2.9
AvalonBay Communities	23,793,754	2.2

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

Sector Breakdown

(Based on Managed Assets)
(Unaudited)

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS

December 31, 2009

		Number of Shares	Value
COMMON STOCK	113.1%		
DIVERSIFIED	8.2%		
Cousins Properties[a]		650,342	$ 4,962,110
Dexus Property Group (Australia)[b]		7,525,800	5,709,645
Forest City Enterprises[c]		248,503	2,927,365
Great Eagle Holdings Ltd. (Hong Kong)[b]		447,490	1,160,345
Lexington Realty Trust[d]		1,477,051	8,980,470
Vornado Realty Trust[d]		499,182	34,912,789
			58,652,724
HEALTH CARE	13.8%		
Brookdale Senior Living[c,d]		779,232	14,174,230
Chartwell Seniors Housing (Canada)		837,600	5,630,184
HCP[d]		1,169,215	35,707,826
Nationwide Health Properties[d]		318,047	11,188,894
Omega Healthcare Investors		443,100	8,618,295
Senior Housing Properties Trust[d]		334,664	7,319,102
Ventas[d]		370,030	16,185,112
			98,823,643
HOTEL	9.2%		
Hospitality Properties Trust[d]		882,915	20,933,915
Host Hotels & Resorts[d]		3,209,191	37,451,259
Hyatt Hotels Corp.		88,582	2,640,629
Sunstone Hotel Investors[c]		572,740	5,085,931
			66,111,734
INDUSTRIAL	7.6%		
AMB Property Corp.[d]		331,170	8,461,393
ProLogis[d]		3,011,649	41,229,475
Segro PLC (United Kingdom)[b]		807,100	4,476,806
			54,167,674
MORTGAGE	0.7%		
MFA Financial[d]		671,535	4,935,782

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2009

		Number of Shares	Value
OFFICE	16.6%		
BioMed Realty Trust[d]		450,260	$ 7,105,103
Boston Properties[d]		470,161	31,533,698
Brookfield Properties Corp.[d]		664,092	8,048,795
Douglas Emmett[d]		26,436	376,713
Hongkong Land Holdings Ltd.(USD) (Singapore)[b]		952,101	4,689,174
ING Office Fund (Australia)[b]		10,965,000	6,232,781
Kilroy Realty Corp.[d]		266,631	8,177,573
Liberty Property Trust[d]		553,269	17,710,141
Mack-Cali Realty Corp.[d]		477,988	16,524,045
SL Green Realty Corp.[d]		371,846	18,681,543
			119,079,566
OFFICE/INDUSTRIAL	1.9%		
PS Business Parks[d]		274,555	13,741,478
RESIDENTIAL	16.7%		
APARTMENT	15.8%		
American Campus Communities[d]		170,326	4,786,161
Apartment Investment & Management Co.[d]		700,674	11,154,730
AvalonBay Communities[d]		289,779	23,793,754
Camden Property Trust		185,725	7,869,168
Colonial Properties Trust[a,d]		470,505	5,519,024
Education Realty Trust[a]		665,349	3,220,289
Equity Residential[d]		965,569	32,616,921
Home Properties[d]		248,466	11,854,313
Post Properties		353,395	6,926,542
UDR[d]		348,551	5,730,178
			113,471,080
MANUFACTURED HOME	0.9%		
Equity Lifestyle Properties[d]			