

COHEN & STEERS TOTAL RETURN REALTY FUND INC
Form N-30B-2
November 06, 2003

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

October 9, 2003

To Our Shareholders:

We are pleased to submit to you our report for the quarter and nine months ended September 30, 2003. The net asset value at that date was \$15.68. In addition, during the quarter, three \$0.085 per share monthly dividends were declared and paid.

INVESTMENT REVIEW

For the quarter, Cohen & Steers Total Return Realty Fund had a total return, based on income and change in net asset value, of 6.8%, bringing the year to date total return to 21.8%.

The REIT bull market rolled on in the third quarter, in a fashion totally consistent with what we expected at this point in the economic and real estate cycle. In our view, prices rose because investors recognized the bottoming of fundamentals, turned their attention to the recovery currently in force and anticipated that the recovery would continue over the next several quarters. We believe that recent developments and events validated this price advance. This has frustrated the growing chorus of REIT skeptics, many of whom believe that the sector had outperformed for too long and valuations were stretched to unsustainable levels. Analyst predictions -- such as 'REITs will lag a rising stock market' and 'REITs are interest rate sensitive' -- never came to pass as REITs performed well as stock prices rose and interest rates experienced a record increase.

Widespread expectations by economists that U.S. GDP grew 5% in the third quarter had a positive impact on most asset classes, with the exception of long-term bonds. This economic strength was evidenced by improving consumer and business confidence, strong retail sales, increasing factory orders and growing manufacturing strength. Despite concerns about the 'jobless recovery,' signs finally appeared that job losses were abating and, by September, there was an actual increase in jobs.

Indicators of improving health in the property market abound. Commentators have noted that vacancy rates in the office sector appear to be nearing their bottom. The prospect for future job growth should facilitate further improvement in this sector. In addition, developers and lenders have shown much greater restraint in this downturn than in the office market in the early 1990s, which should help the market recover more quickly than it did in the last recession. The apartment sector, which has been battered over the past several years, showed moderate signs of improvement during the third quarter. Indicators such as revenue per available room in the hotel industry turned positive for the first time in over two years, and hotel stocks were the star performers of the quarter, rising 21%. Retail sales trends and as a result regional mall fundamentals continued to be very positive and the stocks rose over 13% in the quarter.

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During the quarter, the fund's best performing investments were in the health care, apartment, and regional mall sectors, with each sector contributing a total return in excess of 10%. The worst performing sector was the diversified sector, which had a total return of 5%. The stock with the most significant positive impact on the fund's performance was Mills Corp., an owner and operator of regional malls, while the stock with the most significant negative impact was Crescent Real Estate Equities, which owns a diversified portfolio of properties, including office, retail and hotel. REIT preferred stocks underperformed REIT common stocks during the quarter as a result of the sharp increase in bond yields during July. While over longer periods of time REIT preferred stocks have tended to not have a high correlation to the bond market, REIT preferreds would be expected to underperform during brief periods of rising interest rates, as was experienced during the third quarter. Importantly, with economic and general real estate conditions improving, and with so many REITs having taken advantage of the low interest rate environment to lower their borrowing costs, REITs' credit profiles are as strong as ever, which we believe should be beneficial to our REIT preferred holdings.

At the company level, good news far outweighed bad, as a growing number of REIT managements affirmed or increased earnings guidance, or reported improving fundamental trends. In the office sector, the recent sale of New York's General Motors Building for \$1.4 billion, nearly \$800 per square foot, was a seminal event. The auction of this property attracted multiple bidders from both the public and private market and the final selling price far exceeded most expectations. This transaction provided hard evidence of the value of class A office properties and in our view had a very positive impact on large New York office owners such as Vornado Realty Trust (up 36% this year). Whereas office REITs as a whole have not been the single best performing sector in the REIT industry, we believe their 22% return this year likely indicates expectations that service sector job growth will translate into better occupancies and rents in the future. Responding to strong trends in retail sales, most regional mall owners have reported double digit earnings increases that have been accompanied by exceptional dividend increases. Further, the major mall owners have all completed new property developments or acquisitions that have boosted both current earnings and prospective growth rates.

The industry-wide improvement in REIT balance sheets and growth prospects has continued unabated this year. The refinancing or retirement of high cost debt and preferred stock has improved financial strength and flexibility. This, in turn, has enhanced equity values. Still, it is notable that unsecured borrowing by REITs this year, at \$6.4 billion, trails the \$8.1 billion raised in the same period last year, suggesting that REITs are taking advantage of low interest rates without increasing financial leverage. Many companies have taken advantage of strong stock prices to issue what we consider to be judicious amounts of common equity. This equity has in many cases been used to replace debt or make property acquisitions, often contributing to increased earnings. Whereas some commentators and analysts have argued that equity issuance is a warning sign, the \$3.8 billion in common equity raised in the first nine months of 2003 significantly trails the \$4.7 billion raised in the same period of 2002. (As a point of reference, the record for REIT equity issuance was \$20 billion in 1997.) Further, considering that the equity market capitalization of the REIT industry is now over \$200 billion, this equity issuance is rather insignificant.

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Many commentators and analysts have attributed the REIT rally simply to money flows, implying that rising prices are exclusively the result of irrational technical factors rather than fundamental factors. Indeed, while \$3.0 billion has been invested in real estate mutual funds so far this year, this is well below absolute levels experienced historically. (As with equity issuance, fund inflows reached their peak in 1997, with \$4.1 billion of new assets being invested in real estate mutual funds.) Further, as a percentage of the existing \$23.5 billion in fund assets, it is an even less significant statistic. This flow of funds, in our opinion, is the result of the aforementioned fundamental factors. To believe that funds flows are the drivers of bull markets in our view places cause and effect in reverse order. Demand for an asset class is based on its investment merits, and that is what causes money to flow into that asset class.

INVESTMENT OUTLOOK

Perhaps the most passionate debate in the REIT industry revolves around the current level of stock valuations. Following their strong price advance this year, REITs are trading, on average, at a modest premium to net asset value (NAV), approximately 5% to 10% compared to their long-term average of 0%. In addition, they are trading at a price/cash flow multiple of 11.5, above their long-term average of 11.3. REIT skeptics assert that this limits any further upside price potential, and makes them vulnerable to a price decline. Overlooked, however, is the fact that improving fundamentals are already translating into higher earnings -- thereby resulting in declining future price/cash flow ratios. Similarly, as property level cash flows increase, so are underlying property values. Almost every company that has reported or forecasted improving operations has seen Wall Street earnings estimates and NAV estimates rise, sometimes substantially.

Just as fundamental events have validated price movements to date, further strong returns from REITs (as well as stocks in general), will require the anticipation of ongoing improvement in economic and real estate fundamentals. As this economic recovery proceeds, we expect continued increases in earnings and NAV estimates. As long as this prospect remains intact, we would expect share prices to perform in accordance.

One further factor often overlooked is the access to capital and acquisitions that is available to most of the established high quality REITs. Their strengthened balance sheets have provided them with wide flexibility in acquiring and financing property. Their access to public and private debt and equity capital is simply unprecedented. Just a few of the many examples are the international joint ventures the ProLogis company has established, raising over \$1 billion of equity for investment in Europe and Asia. AMB Property Corp. has raised \$200 million for the acquisition of domestic industrial properties. Health Care Property Investors has raised \$200 million of equity in a joint venture to purchase medical office buildings. CBL & Associates and Developers Diversified have sold large shopping center portfolios to newly created companies in Australia, while retaining the management of them. As investor appetite for real estate has grown, more and more REITs are becoming the beneficiaries of this capital, and they are seeing more and more attractive acquisition opportunities. This has

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

enabled them to achieve a competitive rate of return on new investments as well as to earn management and incentive fees. Again, we expect these transactions to boost both current and future earning power.

A vast number of investors have become more interested in current income, due no doubt to the combination of market volatility, the low interest rate environment and the general focus on dividends brought on by the recently enacted legislation reducing the tax on corporate dividends. (REITs are excluded from this lower tax rate.) Strong dividend income, and indeed the possibility for dividend growth, are an important part of this equation and the REIT industry remains on the forefront of delivering growing income to shareholders. Despite the softest real estate market in 10 years and flat to declining cash flows industry-wide, REIT managements were able to add value by making judicious investment decisions and taking advantage of favorable capital and financing markets. This is demonstrated by the fact that REIT dividends, based on a weighted average of the 100 largest companies in the NAREIT Equity REIT Index, grew in 2002 at a 3.5% rate and continue to grow so far in 2003, at a 3.4% rate. We expect 48 of these 100 largest REITs to increase their dividends this year while only six will have reduced them. In our view, this year should be the trough year for REIT earnings, and we expect the rate of dividend growth to rise in 2004 and accelerate thereafter. Therefore, just like in the price/cash flow ratio and NAV analyses, we believe the current average REIT dividend yield (6.0% at quarter-end) must be viewed in the context of future growth potential as well.

With respect to our outlook for the major property sectors, our portfolio weights reflect our view that the office sector is in the early stages of recovery, while it still has some of the lowest valuations. Regional mall growth rates have remained strong and valuations have remained favorable; however, their dividend yields have been driven down, causing us to limit our holdings in this sector. Rising interest rates and the creation of new jobs have begun to improve apartment demand, and we have increased our holdings in this sector accordingly. Industrial valuations appear to already anticipate an early recovery in fundamentals, which coupled with the lack of satisfactory yield has caused us to maintain a low weighting in this sector. While shopping center fundamentals have remained sound, we believe the sector is fully valued and likely to experience a slowing growth rate.

Notwithstanding our long-term view of REIT industry prospects, we believe it would not be reasonable to expect a continuation of the extraordinary returns REITs have delivered so far this year. While we do not consider REITs to be expensive, the undervaluation they may have experienced in recent years has in our view been corrected. Our forecast is for a reversion to the long-term average total return -- which was 11.6% for the 10-year period ended September 30, 2003 -- with most of that return coming from dividends. Successful investing, particularly in real estate, requires a long-term time horizon. It is therefore ironic that so many real estate analysts have adopted a posture that embraces short-term market-timing. If we have learned anything from the past few tumultuous years of the securities markets, it is that market-timing is a trap for the unsophisticated. We believe

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

more than ever in the power of REITs to deliver competitive total returns over the long-term while providing investors with excellent portfolio diversification benefits.

Sincerely,

MARTIN COHEN
MARTIN COHEN
President

ROBERT H. STEERS
ROBERT H. STEERS
Chairman

GREG E. BROOKS
GREG E. BROOKS
Portfolio Manager

Cohen & Steers is online at COHENANDSTEERS.COM. We have enhanced both the look and features of our Web site to give you more information about our company, our funds and the REIT market in general. Check out our new interactive Asset Allocation Tool, which allows you to hypothetically add REITs to any portfolio to see how they impact expected total returns and risk. Or try the Fund Performance Calculator and see how our funds have performed versus the S&P 500 Index or Nasdaq Composite. As always, you can also get daily net asset values, fund fact sheets, portfolio highlights, recent news articles and our overall insights on the REIT market.

So visit us today at COHENANDSTEERS.COM

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COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS
SEPTEMBER 30, 2003 (UNAUDITED)

| | | NUMBER OF SHARES | VALUE | DIVIDEN YIELD (a) |
|--------------|--|---------------------|--------|----------------------|
| | | ----- | ----- | ----- |
| EQUITIES | | | | |
| | | | 99.29% | |
| COMMON STOCK | | | 78.59% | |
| DIVERSIFIED | | | 9.77% | |

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| | | | |
|--|---------|--------------|-------|
| Colonial Properties Trust..... | 82,100 | \$ 2,958,063 | 7.38% |
| Crescent Real Estate Equities Co. | 170,600 | 2,473,700 | 10.34 |
| iStar Financial..... | 36,900 | 1,437,255 | 6.80 |
| Newcastle Investment Corp. | 15,500 | 356,345 | 8.70 |
| Vornado Realty Trust..... | 144,700 | 6,951,388 | 5.66 |
| | | ----- | |
| | | 14,176,751 | |
| | | ----- | |
| HEALTH CARE | 9.57% | | |
| Health Care Property Investors..... | 115,000 | 5,370,500 | 7.11 |
| Health Care REIT..... | 27,600 | 851,460 | 7.59 |
| Nationwide Health Properties..... | 161,800 | 2,829,882 | 8.46 |
| Ventas..... | 281,700 | 4,822,704 | 6.25 |
| | | ----- | |
| | | 13,874,546 | |
| | | ----- | |
| HOTEL | 0.34% | | |
| Hospitality Properties Trust..... | 14,200 | 498,136 | 8.21 |
| | | ----- | |
| INDUSTRIAL | 2.68% | | |
| First Industrial Realty Trust..... | 64,700 | 2,074,929 | 8.54 |
| Keystone Property Trust..... | 89,500 | 1,813,270 | 6.52 |
| | | ----- | |
| | | 3,888,199 | |
| | | ----- | |
| OFFICE | 23.47% | | |
| Arden Realty..... | 160,000 | 4,467,200 | 7.23 |
| Brandywine Realty Trust..... | 184,900 | 4,750,081 | 6.85 |
| CarrAmerica Realty Corp. | 155,100 | 4,629,735 | 6.70 |
| Equity Office Properties Trust..... | 203,400 | 5,599,602 | 7.26 |
| Highwoods Properties..... | 60,800 | 1,450,688 | 7.12 |
| Mack-Cali Realty Corp. | 155,800 | 6,107,360 | 6.43 |
| Maguire Properties..... | 93,000 | 1,906,500 | 7.80 |
| Prentiss Properties Trust..... | 165,300 | 5,124,300 | 7.23 |
| | | ----- | |
| | | 34,035,466 | |
| | | ----- | |

(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, on which such security trades.

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COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)
SEPTEMBER 30, 2003 (UNAUDITED)

| NUMBER OF SHARES | VALUE | DIVIDEND YIELD |
|---------------------|-------|-------------------|
| ----- | ----- | ----- |

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| | | | | |
|--|---------|--------------|--|-------|
| OFFICE/INDUSTRIAL | 6.33% | | | |
| Kilroy Realty Corp. | 56,600 | \$ 1,615,930 | | 6.94% |
| Liberty Property Trust..... | 135,600 | 5,014,488 | | 6.54 |
| Reckson Associates Realty Corp. -- Class B..... | 110,000 | 2,546,500 | | 11.19 |
| | | ----- | | |
| | | 9,176,918 | | |
| | | ----- | | |
| RESIDENTIAL -- APARTMENT | 12.98% | | | |
| Apartment Investment & Management Co. | 40,800 | 1,605,888 | | 8.33 |
| Archstone-Smith Trust..... | 152,900 | 4,033,502 | | 6.48 |
| AvalonBay Communities..... | 69,900 | 3,271,320 | | 5.98 |
| Camden Property Trust..... | 78,900 | 3,032,127 | | 6.61 |
| Gables Residential Trust..... | 122,900 | 3,972,128 | | 7.46 |
| Home Properties of New York..... | 47,000 | 1,842,400 | | 6.22 |
| Mid-America Apartment Communities..... | 35,400 | 1,068,372 | | 7.75 |
| | | ----- | | |
| | | 18,825,737 | | |
| | | ----- | | |
| SELF STORAGE | 0.14% | | | |
| Sovran Self Storage..... | 6,200 | 205,530 | | 7.27 |
| | | ----- | | |
| SHOPPING CENTER | 13.31% | | | |
| COMMUNITY CENTER | 4.57% | | | |
| Developers Diversified Realty Corp. | 22,600 | 675,062 | | 5.49 |
| Federal Realty Investment Trust..... | 67,200 | 2,476,992 | | 5.32 |
| Heritage Property Investment Trust..... | 51,300 | 1,481,544 | | 7.27 |
| Kramont Realty Trust..... | 69,500 | 1,178,025 | | 7.67 |
| Urstadt Biddle Properties -- Class A..... | 60,000 | 810,000 | | 6.22 |
| | | ----- | | |
| | | 6,621,623 | | |
| | | ----- | | |
| REGIONAL MALL | 8.74% | | | |
| CBL & Associates Properties..... | 43,100 | 2,150,690 | | 5.25 |
| Glimcher Realty Trust..... | 95,200 | 2,005,864 | | 9.11 |
| Macerich Co. | 110,500 | 4,171,375 | | 6.04 |
| Mills Corp. | 110,600 | 4,352,110 | | 5.74 |
| | | ----- | | |
| | | 12,680,039 | | |
| | | ----- | | |
| TOTAL SHOPPING CENTER..... | | 19,301,662 | | |
| | | ----- | | |
| TOTAL COMMON STOCK (Identified cost -- \$89,033,906)..... | | 113,982,945 | | |
| | | ----- | | |

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)
SEPTEMBER 30, 2003 (UNAUDITED)

NUMBER

DIVIDEND

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| | | OF SHARES | VALUE | YIELD |
|--|--------|-----------|-----------|-------|
| | | ----- | ----- | ----- |
| PREFERRED STOCK | 20.70% | | | |
| DIVERSIFIED | 1.33% | | | |
| Colonial Properties Trust, 9.25%, Series C..... | | 600 | \$ 16,170 | 8.57% |
| Colonial Properties Trust, 8.125%, Series D..... | | 14,600 | 379,600 | 7.81 |
| Crescent Real Estate Equities Co., 6.75%, Series A (Convertible)..... | | 75,500 | 1,528,875 | 8.35 |
| | | | ----- | |
| | | | 1,924,645 | |
| | | | ----- | |
| HEALTH CARE | 2.46% | | | |
| Nationwide Health Properties, 7.677%, Series P.... | | 47,000 | 3,569,062 | 10.11 |
| | | | ----- | |
| HOTEL | 0.21% | | | |
| FelCor Lodging Trust, 9.00%, Series B..... | | 2,900 | 71,369 | 9.14 |
| Host Marriott Corp, 10.00%, Series C..... | | 3,500 | 87,500 | 10.00 |
| Host Marriott Financial Trust, 6.75%, QUIPS (Convertible) (a)..... | | 3,200 | 140,800 | 7.68 |
| | | | ----- | |
| | | | 299,669 | |
| | | | ----- | |
| INDUSTRIAL | 0.34% | | | |
| Keystone Property Trust, 9.125%, Series D..... | | 18,800 | 499,140 | 8.59 |
| | | | ----- | |
| OFFICE | 4.22% | | | |
| Alexandria Real Estate Equities, 9.10%, Series B..... | | 13,900 | 384,474 | 8.24 |
| HRPT Properties Trust, 8.75%, Series B..... | | 52,800 | 1,415,568 | 8.17 |
| Highwoods Properties, 8.625%, Series A..... | | 4,300 | 4,316,125 | 8.59 |
| | | | ----- | |
| | | | 6,116,167 | |
| | | | ----- | |
| RESIDENTIAL -- APARTMENT | 3.76% | | | |
| Apartment Investment & Management Co., 8.75%, Series D..... | | 6,431 | 161,097 | 8.74 |
| Apartment Investment & Management Co., 9.375%, Series G..... | | 113,200 | 3,071,116 | 8.63 |
| Apartment Investment & Management Co., 10.10%, Series Q..... | | 25,000 | 664,750 | 9.51 |
| Apartment Investment & Management Co., 10.00%, Series R..... | | 18,100 | 481,460 | 9.40 |
| Mid-America Apartment Communities, 8.30%, Series H..... | | 17,300 | 451,530 | 7.97 |
| Post Properties, 8.50%, Series A..... | | 11,000 | 616,000 | 7.59 |
| | | | ----- | |
| | | | 5,445,953 | |
| | | | ----- | |
| SHOPPING CENTER | 8.38% | | | |
| COMMUNITY CENTER | 0.53% | | | |
| Developers Diversified Realty Corp., 8.60%, Series F..... | | 1,600 | 42,720 | 8.05 |
| Ramco-Gershenson Property Trust, 9.50%, Series B..... | | 11,600 | 323,640 | 8.53 |
| Urstadt Biddle Properties, 8.50%, Series C..... | | 4,000 | 407,000 | 8.35 |
| | | | ----- | |
| | | | 773,360 | |
| | | | ----- | |

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(a) QUIPS Quarterly Income Preferred Securities

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COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)
SEPTEMBER 30, 2003 (UNAUDITED)

| | | NUMBER OF SHARES | VALUE | DIVIDEND YIELD |
|---|---------|---------------------|-------------|-------------------|
| | | ----- | ----- | ----- |
| OUTLET CENTER | 0.46% | | | |
| Chelsea Property Group, 8.375%, Series A..... | | 13,000 | \$ 675,188 | 8.07% |
| | | | ----- | |
| REGIONAL MALL | 7.39% | | | |
| CBL & Associates Properties, 8.75%, Series B..... | | 13,000 | 703,950 | 8.09 |
| Crown American Realty Trust, 11.00%, Series A..... | | 55,400 | 3,177,190 | 9.59 |
| Mills Corp., 9.00%, Series B..... | | 73,800 | 1,963,080 | 8.46 |
| Mills Corp., 9.00%, Series C..... | | 25,000 | 667,500 | 8.43 |
| Mills Corp., 8.75%, Series E..... | | 26,000 | 687,700 | 8.28 |
| Taubman Centers, 8.30%, Series A..... | | 139,500 | 3,512,610 | 8.26 |
| | | | ----- | |
| | | | 10,712,030 | |
| | | | ----- | |
| TOTAL SHOPPING CENTER..... | | | 12,160,578 | |
| | | | ----- | |
| TOTAL PREFERRED STOCK (Identified cost -- \$26,999,814)..... | | | 30,015,214 | |
| | | | ----- | |
| TOTAL EQUITIES (Identified cost -- \$116,033,720)..... | | | 143,998,159 | |
| | | | ----- | |
| | | | | |
| | | PRINCIPAL AMOUNT | | |
| | | ----- | | |
| CORPORATE BOND | 0.45% | | | |
| Host Marriott, LP, 9.50%, due 01/15/07 (Identified cost -- \$600,523)..... | | \$600,000 | 660,000 | |
| | | | ----- | |
| TOTAL INVESTMENTS (Identified cost -- \$116,634,243)..... | 99.74% | | 144,658,159 | |
| | | | ----- | |
| OTHER ASSETS IN EXCESS OF LIABILITIES..... | 0.26% | | 371,941 | |
| | | | ----- | |
| NET ASSETS (Equivalent to \$15.68 per share based on 9,249,159 shares of capital stock outstanding)..... | 100.00% | | 145,030,100 | |
| | | ----- | ----- | |
| | | ----- | ----- | |

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

FINANCIAL HIGHLIGHTS (a)
SEPTEMBER 30, 2003 (UNAUDITED)

| | TOTAL NET ASSETS | NET ASSET VALUE PER SHARE |
|---|------------------|------------------------------|
| NET ASSET VALUE: | | |
| Beginning of period: 12/31/02..... | \$125,036,348 | \$13.52 |
| Net investment income..... | \$ 6,873,808 | \$ 0.74 |
| Net realized and unrealized gain on investments..... | 20,056,615 | 2.17 |
| Distributions from net investment income..... | (6,936,671) | (0.75) |
| Net decrease in net asset value..... | 19,993,752 | 2.16 |
| End of period: 9/30/03..... | \$145,030,100 | \$15.68 |

AVERAGE ANNUAL TOTAL RETURNS (b)
(PERIODS ENDED SEPTEMBER 30, 2003) (UNAUDITED)

| ONE YEAR | FIVE YEARS | TEN YEARS | SINCE INCEPTION (9/27/93) |
|----------|------------|-----------|------------------------------|
| 21.09% | 11.33% | 10.82% | 10.94% |

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.

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) Financial information included in this report has been taken from the records of the fund without examination by independent accountants.

(b) Based on net asset value.

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COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

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 adviser who have a legitimate business need for the information.

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COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

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

FOR HIGH CURRENT INCOME:

FOR TOTAL RETURN:

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COHEN & STEERS
EQUITY INCOME FUND

IDEAL FOR INVESTORS SEEKING A HIGH DIVIDEND
YIELD AND CAPITAL APPRECIATION, INVESTING
PRIMARILY IN REITS

A, B, C AND I SHARES AVAILABLE

SYMBOLS: CSEIX, CSBIX, CSCIX, CSDIX

FOR CAPITAL APPRECIATION

COHEN & STEERS
SPECIAL EQUITY FUND

IDEAL FOR INVESTORS SEEKING MAXIMUM CAPITAL
APPRECIATION, INVESTING IN A LIMITED NUMBER
OF COMPANIES ENGAGED IN THE REAL ESTATE OR
RELATED INDUSTRIES

CONCENTRATED, HIGHLY FOCUSED PORTFOLIO

SYMBOL: CSSPX

COHEN & STEERS
REALTY SHARES

IDEAL FOR INVESTORS SEEKING MAXIMUM TOT
RETURN THROUGH BOTH CURRENT INCOME AND
CAPITAL APPRECIATION, INVESTING PRIMARI
REITS

SYMBOL: CSRSX

FOR TOTAL RETURN

COHEN & STEERS
INSTITUTIONAL REALTY SHARES

IDEAL FOR INVESTORS SEEKING MAXIMUM TOT
RETURN THROUGH BOTH CURRENT INCOME AND
CAPITAL APPRECIATION, INVESTING PRIMARI
REITS

OFFERS LOW TOTAL EXPENSE RATIO

HIGHER MINIMUM PURCHASE REQUIRED

SYMBOL: CSRIX

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

THE PROSPECTUS CONTAINS MORE INFORMATION ABOUT EACH FUND INCLUDING ALL CHARGES AND EXPENSES,
AND SHOULD BE READ CAREFULLY BEFORE YOU INVEST.

COHEN & STEERS SECURITIES, LLC, DISTRIBUTOR

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COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

OFFICERS AND DIRECTORS

Robert H. Steers
Director and chairman

Martin Cohen
Director and president

Gregory C. Clark
Director

KEY INFORMATION

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

FUND ADMINISTRATOR AND CUSTODIAN
State Street Corp.

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|---|---|
| Bonnie Cohen Director | 225 Franklin Street Boston, MA 02110 |
| George Grossman Director | TRANSFER AGENT Equiserve Trust Company 150 Royall Street Canton, MA 02021 (800) 426-5523 |
| Richard J. Norman Director | LEGAL COUNSEL Simpson Thacher & Bartlett 425 Lexington Avenue New York, NY 10017 |
| Willard H. Smith Jr. Director | |
| Greg E. Brooks Vice president | New York Stock Exchange Symbol: RFI |
| Adam Derechin Vice president and assistant treasurer | Web site: cohenandsteers.com |
| Lawrence B. Stoller Assistant secretary | 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. |

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TOTAL RETURN REALTY FUND
757 THIRD AVENUE
NEW YORK, NY 10017

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QUARTERLY REPORT
SEPTEMBER 30, 2003