

COHEN & STEERS QUALITY INCOME REALTY FUND INC
Form N-CSR
March 02, 2015

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
(Address of principal executive offices)

10017
(Zip code)

Tina M. Payne

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, 2014

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, 2014. The net asset value (NAV) at that date was \$13.54 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 \$12.19.

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

	Six Months Ended December 31, 2014	Year Ended December 31, 2014
Cohen & Steers Quality Income Realty Fund at NAV ^a	12.32%	37.57%
Cohen & Steers Quality Income Realty Fund at Market Value ^a	11.90%	37.57%
FTSE NAREIT Equity REIT Index ^b	10.61%	30.14%
Blended Benchmark 80% FTSE NAREIT Equity REIT Index/20% BofA Merrill Lynch REIT Preferred Securities Index ^b	9.52%	28.76%
S&P 500 Index ^b	6.12%	13.69%

The performance data quoted represent past performance. Past performance is no guarantee of future results. The investment return and the principal value of an investment will fluctuate and shares, if sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Performance results reflect the effects of leverage, resulting from borrowings under a credit agreement. Current total returns of the Fund can be obtained by visiting our website at cohenandsteers.com. The Fund's returns assume the reinvestment of all dividends and distributions at prices obtained under the Fund's dividend reinvestment plan. Index performance does not reflect the deduction of any fees, taxes or expenses. An investor cannot invest directly in an index. Performance figures for periods shorter than one year are not annualized.

Managed Distribution Policy

Cohen & Steers Quality Income Realty Fund, Inc. (the Fund), acting in accordance with an exemptive order received from the Securities and Exchange Commission and with approval of its Board of Directors (the Board), adopted a managed distribution policy under which the Fund intends to include

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

^b The FTSE NAREIT Equity REIT Index is an unmanaged, market-capitalization-weighted index of all publicly traded REITs that invest predominantly in the equity ownership of real estate. The index is designed to reflect the performance of all publicly traded equity REITs as a whole. The BofA Merrill Lynch REIT Preferred Securities Index is a subset of the BofA Merrill Lynch Fixed-Rate Preferred Securities Index including all real estate investment trust issued preferred securities. The S&P 500 Index is an unmanaged

index of 500 large-cap stocks that is frequently used as a general measure of stock market performance.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

long-term capital gains, where applicable, as part of the regular quarterly cash distributions to its shareholders (the Plan). The Plan will give the Fund greater flexibility to realize long-term capital gains and to distribute those gains on a regular quarterly basis. In accordance with the Plan, the Fund currently distributes \$0.19 per share on a quarterly basis.

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

Shareholders should not draw any conclusions about the Fund's investment performance from the amount of these distributions or from the terms of the Fund's Plan. The Fund's total return based on net asset value is presented in the table above as well as in the Financial Highlights table.

The Plan provides that the Board may amend or terminate the Plan at any time without prior notice to Fund shareholders; however, at this time, there are no reasonably foreseeable circumstances that might cause the termination. The termination of the Plan could have the effect of creating a trading discount (if the Fund's stock is trading at or above net asset value) or widening an existing trading discount.

Fair Value Policy

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

Investment Review

U.S. real estate investment trusts (REITs) rallied from a disappointing year in 2013 to post their best annual returns since 2006. Improving economic growth led to strengthening fundamentals across all property types, while a decline in Treasury yields from already low levels led to better investor sentiment toward higher-yielding equities. Earnings reports from commercial real estate companies announced throughout the year generally met or exceeded expectations, sustaining the group's outperformance of the broader equity market.

Property Sector Returns Were Broadly in Double Digits

Returns were positive across all property types. Apartment REITs (39.7% total return) did particularly well amid strong job gains and relatively modest new supply. The regional mall sector (32.6%) was also resilient, benefiting in part from merger and acquisition activity. Mall owner Glimcher

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

Realty had a large gain on a buyout offer from Washington Prime, which was formed in May as a spin off from Simon Property Group.

Health care property companies (33.1%) were also a top performer. While the group's growth rates are not as robust compared with many other sectors, investors found favor in health care's visible income streams in an environment of low interest rates. Hotels (32.5%) had a healthy gain. Earnings were generally supportive, although there was some lowered guidance related to softening demand outside of the U.S.

Self storage owners (31.5%) as with REITs broadly, continued to benefit from strong demand and muted new supply. In the office sector (25.9%), asset values and rent-growth expectations continued to improve, particularly in New York City and certain West Coast markets. In news, late in the year, Paramount Group had the largest REIT initial public offering in U.S. history, in a deal that raised nearly \$2.5 billion. The company focuses on New York City but also owns offices in Washington, D.C. and San Francisco.

Industrial real estate companies (21.0%) underperformed the index but still registered a strong absolute gain. The sector was one property type that was restrained, relatively speaking, by concerns of higher supply. The free standing retail sector (9.3%) also trailed the wider REIT market, due to a decline in the shares of American Realty Capital Properties, which reported an overstatement of its first-half 2014 cash flow.

REIT Preferred Securities Also Rallied

Preferred securities issued by commercial real estate companies had a total return of 22.9% in the period as measured by the BofA Merrill Lynch REIT Preferred Securities Index, aided by low interest rates and the good fundamentals that helped lift REITs' common shares. Although REIT cash flows have been growing with the U.S. economy, real estate companies remained generally conservative with balance sheet management, and the new supply of REIT preferreds was quite limited.

Fund Performance

The Fund had a positive total return for the year and outperformed its blended benchmark based on both NAV and market price. Factors that helped relative performance included stock selection in the regional mall sector, where we had a beneficial overweight in Glimcher Realty when its share price rallied on the buyout news. We believed that the quality of the company's assets was not being fully recognized by the market. Stock selection in the health care, shopping center and self storage sectors also aided performance. In addition, we were underweight American Realty Capital Properties in the free standing retail sector.

Factors that detracted from relative returns included stock selection in the office sector and our overweight in industrial real estate companies. The Fund's allocation to REIT preferred securities had significant absolute total returns, but did not keep pace with the preferreds included in the benchmark. We were underweight certain longer-duration investment-grade REIT preferreds that were poor performers in 2013, but then rebounded strongly as longer-term bond yields declined.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

Impact of Leverage on 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), significantly contributed to the Fund's performance for the 12-month period ended December 31, 2014.

Impact of Derivatives on Fund Performance

The Fund engaged in the buying and selling of single stock options with the intention of enhancing total returns and reducing overall volatility. These contracts did not have a material impact on the Fund's total return during the 12-month period ended December 31, 2014.

Investment Outlook

The U.S. economy appears to be on generally solid footing. With third-quarter 2014 gross domestic product growth revised upward to 5%, the highest reading since 2003, positive U.S. employment trends may be sustainable at recent levels or even improve, with potential benefits accruing to REITs in terms of rising occupancies and rents. The dramatic fall in gasoline prices in 2014 may prove to be an economic bonus in 2015, by incrementally giving consumers more spending power in the new year.

We retain a focus on cyclically sensitive names. We continue to favor New York and West Coast offices, along with select retail, self storage and apartment REITs, based on our view of strengthening fundamentals. Within the self storage sector, we expect further upside to cash-flow growth amid strong demand and limited new supply. We maintain an overall favorable view of apartments. We believe employment growth and household formation trends should support multifamily occupancies and rents; however, the ability to buy homes should gradually improve in a better credit environment, which, along with rising supply, bears monitoring.

In terms of where we stand with performance and valuations, we believe U.S. REITs continue to offer positive risk-adjusted return potential, as the prospect of higher asset values and cash flows in an improving economy should outweigh the likely return of higher short-term Treasury rates later in 2015. In general, we believe the improvement in real estate fundamentals and continued job growth can drive further gains in net asset values and improvements in cash-flow growth.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

Sincerely,

ROBERT H. STEERS
Chairman

JOSEPH M. HARVEY
Portfolio Manager

WILLIAM F. SCAPELL
Portfolio Manager

THOMAS N. BOHJALIAN
Portfolio Manager

JASON YABLON

Portfolio Manager

The views and opinions in the preceding commentary are subject to change without notice and are as of the date of publication. There is no guarantee that any market forecast set forth in the commentary will be realized. This material represents an assessment of the market environment at a specific point in time, should not be relied upon as investment advice and is not intended to predict or depict performance of any investment.

Visit Cohen & Steers online at cohenandsteers.com

For more information about the Cohen & Steers family of mutual funds, visit cohenandsteers.com. Here you will find fund net asset values, fund fact sheets and portfolio highlights, as well as educational resources and timely market updates.

Our website also provides comprehensive information about Cohen & Steers, including our most recent press releases, profiles of our senior investment professionals and their investment approach to each asset class. The Cohen & Steers family of mutual funds invests in major real asset categories including real estate, infrastructure and commodities, along with preferred securities and other income solutions.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.Our Leverage Strategy
(Unaudited)

Our current leverage strategy utilizes borrowings up to the maximum permitted by the Investment Company Act of 1940 to provide additional capital for the Fund, with an objective of increasing the net income available for shareholders. As of December 31, 2014, leverage represented 24% of the Fund's managed assets.

Through a combination of variable and fixed rate financing, the Fund has locked in interest rates on a significant portion of this additional capital for periods of five, six and seven years (where we effectively reduce our variable rate obligation and lock in our fixed rate obligation over various terms). 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 portions of the Fund's leveraging costs for the various terms partially protects the Fund's expenses from an increase in short-term interest rates.

Leverage Facts^{a,b}

Leverage (as a % of managed assets)	24%
% Fixed Rate	85%
% Variable Rate	15%
Weighted Average Rate on Financing	1.9%
Weighted Average Term on Financing	3.6 years

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 shares may be reduced by the issuance and ongoing costs of leverage. So long as the Fund is able to invest in securities that produce an investment yield that is greater than the total cost of leverage, the leverage strategy will produce higher current net investment income for shareholders. On the other hand, to the extent that the total cost of leverage exceeds the incremental income gained from employing such leverage, 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 shareholders. Specifically, in an up market, leverage will typically generate greater capital appreciation than if the Fund were 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 shareholders. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed.

^a Data as of December 31, 2014. Information is subject to change.

^b See Note 7 in Notes to Financial Statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

December 31, 2014

Top Ten Holdings^a
(Unaudited)

Security	Value	% of Managed Assets
Simon Property Group	\$121,496,326	6.2
Equity Residential	101,351,226	5.2
Ventas	71,140,167	3.7
SL Green Realty Corp.	63,831,378	3.3
Vornado Realty Trust	61,676,273	3.2
General Growth Properties	54,230,336	2.8
Prologis	47,645,312	2.4
Public Storage	47,413,285	2.4
UDR	46,938,490	2.4
Health Care REIT	42,467,593	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, 2014

		Number of Shares	Value
COMMON STOCK REAL ESTATE	107.2%		
DIVERSIFIED	6.2%		
American Assets Trust ^{a,b}		387,981	\$ 15,445,524
BGP Holdings PLC (Australia) (EUR) ^{c,d,e}		3,927,678	0
Gramercy Property Trust ^f		2,113,774	14,585,041
Vornado Realty Trust ^{a,b}		523,968	61,676,273
			91,706,838
HEALTH CARE	12.3%		
Aviv REIT ^a		700,936	24,168,273
Health Care REIT		561,221	42,467,593
Healthcare Trust of America, Class A		944,650	25,448,871
Omega Healthcare Investors		243,901	9,529,212
Physicians Realty Trust		617,890	10,256,974
Ventas ^{a,b}		992,192	71,140,167
			183,011,090
HOTEL	8.7%		
Belmond Ltd., Class A (Bermuda) ^e		543,566	6,723,911
Chatham Lodging Trust ^a		360,309	10,438,152
Extended Stay America		925,677	17,874,823
Hersha Hospitality Trust ^a		2,522,533	17,733,407
Host Hotels & Resorts ^{a,b}		1,039,806	24,716,189
Strategic Hotels & Resorts ^{a,e}		1,491,784	19,736,302
Sunstone Hotel Investors		1,898,898	31,350,806
			128,573,590
INDUSTRIALS	5.7%		
First Industrial Realty Trust ^a		392,600	8,071,856
Prologis ^{a,b}		1,107,258	47,645,312
Rexford Industrial Realty		861,508	13,534,291
STAG Industrial		614,161	15,046,944
			84,298,403

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2014

		Number of Shares	Value
OFFICE	21.4%		
BioMed Realty Trust ^a		1,453,517	\$ 31,308,756
Boston Properties ^{a,b}		192,744	24,804,225
Brandywine Realty Trust ^a		1,066,603	17,044,316
Corporate Office Properties Trust ^a		533,696	15,140,956
Cousins Properties ^{a,b}		1,547,066	17,667,494
Douglas Emmett ^{a,b}		828,297	23,523,635
Empire State Realty Trust, Class A ^{a,b}		890,474	15,654,533
Equity Commonwealth ^{a,b}		647,151	16,612,366
Highwoods Properties		438,669	19,424,263
Hudson Pacific Properties ^a		514,908	15,478,135
Kilroy Realty Corp.		450,225	31,097,041
Parkway Properties		1,058,401	19,463,994
PS Business Parks ^{a,b}		86,328	6,866,529
SL Green Realty Corp. ^{a,b}		536,308	63,831,378