

COHEN & STEERS QUALITY INCOME REALTY FUND INC

Form N-30B-2

May 04, 2004

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

April 21, 2004

To Our Shareholders:

We are pleased to submit to you our report for the quarter ended March 31, 2004. The net asset value at that date was \$20.79. During the quarter, three \$0.11 per share monthly dividends were paid. In addition, on March 2, 2004, the fund announced an increase in its next three monthly dividends to \$0.115 per share, payable on April 30, 2004, May 28, 2004 and June 30, 2004. The new dividend represents an increase of approximately 4.5% in the monthly rate.

INVESTMENT REVIEW

For the quarter, Cohen & Steers Quality Income Realty Fund had a total return, based on income and change in net asset value, of 14.82%. This compares with the NAREIT Equity REIT Index's(a) total return of 12.0%.

The overall equity market was generally choppy during the first quarter, as the broad market averages showed little change. In contrast, REITs performed well, driven by continued investor appreciation for the potential for REITs to continue to provide current income, lower volatility, competitive total returns, portfolio diversification and, most importantly in our opinion, the improving visibility and breadth of U.S. economic growth. Following the quarter-end, however, bond and stock markets, particularly REITs, had a decidedly negative response to the strong March jobs report. As more fully discussed in the 'Investment Outlook' section below, we believe that this is a temporary correction driven by valuation concerns of some investors and exacerbated by short-term technical factors. We believe that REIT valuations and growth prospects are more attractive now than at any time over the past several months.

Approximately two and a half years into an economic recovery, we believe the impact is being felt broadly across the income-producing property markets in many parts of the United States as demand for space is increasing and rents are stabilizing. In our view, the resultant acceleration in REIT cash flow growth rates is what has been driving stock prices since last year. After a modest earnings decline in 2003, our forecast is for earnings growth to accelerate to mid-single digit growth this year and high single digit growth next year.

The leadership patterns of recent quarters held during the first quarter. The regional mall group, continuing to enjoy the best fundamentals of any property type in our opinion, was the best performing sector with a 22.7% total return. Health care, a more interest rate sensitive sector, benefited from a further decline in interest rates and delivered 16.6%. Shopping centers' continued earnings consistency helped drive them to a 15.5% total return. Apartments, hotels and office lagged with 4.3%, 6.8% and 9.0% total returns, respectively.

The fund's best performing investments during the quarter were in the regional mall (22.7% total return) and health care (18.1%) sectors, while the worst performing sector for the fund was the apartment sector, which had a 7.1% total return. Ventas Inc., continuing where it left off from last year, was the fund's best performing stock, contributing a total return of 26.5% during the quarter. Other standouts included Newcastle Investment Corp, Glimcher Realty

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Trust, Macerich Company and Mills Corp., all of which provided total returns in excess of

(a) The 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.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

20%. Laggards during the quarter were Equity Office Properties, Camden Property Trust and Home Properties, each of which had a total return of less than 3%.

Taking a more thematic approach toward examining the determinants of performance within the REIT sector during the first quarter, we have observed that cash flow growth has been the dominant driver. We found a meaningful correlation between current cash flow growth rate and first quarter stock price performance. In our view, those companies that are facing positive property fundamentals and those that have the ability to deploy capital at attractive yields (whether through acquisitions or redevelopment of existing real estate, or through ground-up development) also tend to have an attractive cost of both equity and debt capital. This has enabled many of these companies to expand their portfolios even more profitably. This activity, of course, often has the potential to result in a very positive effect on growth in both net asset value and earnings.

Not surprisingly, the stock prices of many of the aggressive acquirers of property have appreciated the most during the first quarter. Skeptics may observe that property prices look expensive by historical standards. However, we expect the economic recovery to continue and therefore do not believe that there will be a better buying opportunity a year from now if our forecast for stronger job growth, increased occupancies, and higher rents is realized.

The converse of this has been true for companies on the opposite side of this trend. Companies that have viewed the current pricing of real estate assets as expensive or even somewhat irrational have opted to be net sellers of assets -- de-leveraging and waiting for a better buying opportunity. The practitioners of this strategy have been rewarded with anemic stock price appreciation. The market's judgment appears to be that these companies have foregone an opportunity to boost earnings and create value.

INVESTMENT OUTLOOK

As discussed, a very strong March increase in U.S. nonfarm payrolls was announced on April 2, 2004, well in excess of consensus expectations (308,000 new jobs created versus an expectation of 120,000). The bond and stock markets reacted negatively to the news, as did REITs, due to concerns that the Federal Reserve would raise interest rates. REIT stock prices declined in the week following the release of the jobs report as investors took profits from a group of stocks that had appreciated without interruption for the past 14 months. While REITs have demonstrated little correlation with interest rates over longer periods of time, it appears that in the short term, the extreme bond market

activity has negatively impacted REITs. The more defensive sectors such as shopping centers and health care underperformed, while the more cyclical sectors such as office and apartments declined less.

We believe that this has been a temporary correction in the REIT market driven by valuation concerns by some investors as well as by short-term technical factors. Ironically, if strong job growth continues in the coming months, as we expect, real estate fundamentals should respond very favorably, especially in the apartment and office sectors where job growth is the single greatest determinant of demand for space.

We continue to maintain a positive outlook for the U.S. economy. At this time, in our opinion, all the pre-conditions for strong job growth are in place. Corporate profits have staged a dramatic recovery and are at an all-time high as a percentage of GDP. Therefore, it is increasingly profitable for firms to hire the next incremental worker. The recently reported declines in weekly initial jobless claims to three-year lows and the spike in the monthly change in nonfarm payrolls to the highest levels in four years have finally begun to demonstrate that this is occurring.

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Though not widely understood, we believe that job growth has actually been occurring for some time. Many of the companies that we invest in are on the front lines of the consumer and corporate economy. A number of the office and apartment companies that we speak with have observed improved leasing activity for their portfolios that would contradict the virtually nonexistent rate of job growth implied by the official government statistics until recently. Thus, we believe that a normal cyclical economic recovery is in the process of unfolding. In addition, the supply/demand dynamic in most real estate markets is turning more positive. Many real estate companies are adding value, in our view, by making real estate investments in a profitable and disciplined fashion. As a result of the historically low interest rate environment of the last few years, many REITs were able to improve their balance sheets in a way that gives these companies better potential for an attractive spread between property yields and their blended cost of capital. As a result, our forecast is that cash flow growth rates for REITs should begin to accelerate in 2004 after declining in 2003.

With earnings visibility improving, our forecast is for a resumption of meaningful dividend increases in the next year or two. This is an important factor to consider when assessing how REITs react to rising interest rates. Unlike fixed income securities, REITs have the potential to increase their dividends as the economy expands and companies see their earnings increase, which can help to offset rising rates. During the last economic expansion, for example (the period from 1992 through 2001), REITs increased their dividends on average by about 7% per year.

With the recent pullback, REITs are now back to trading closely in line with their underlying net asset values. As a result, we believe REIT valuations are now more attractive than at any time over the past several months. Thus, while market activity could continue to be choppy over the near term, we believe that REIT fundamentals are poised to continue to improve, which should be positive

for dividends and share prices over the intermediate and longer term.

Sincerely,

MARTIN COHEN
MARTIN COHEN
President

ROBERT H. STEERS
ROBERT H. STEERS
Chairman

GREG E. BROOKS
GREG E. BROOKS
Portfolio Manager

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

OUR LEVERAGE STRATEGY

The bond market reacted to the strong March jobs report released on April 2nd by turning in its worst single day in 20 years, with the yield on the 10-year Treasury bond increasing from 3.9% to 4.2%. 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. In this period of significant interest rate volatility, and with the possibility that interest rates could trend higher in the near term, we want to take the opportunity to review our leverage strategy.

Our leverage strategy involves issuing auction market preferred stock (AMPS) to raise additional capital for the fund, with an objective of increasing the net income available for shareholders. As of March 31, 2004, AMPS represented 30% of the fund's total capital. 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 70% of our borrowings at an average interest rate of 4.9%, for an average remaining period of 3.2 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

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an increase in short-term interest rates may have as a result of the use of leverage.

LEVERAGE FACTS

| | |
|--------------------------------------|-----------|
| Leverage (as % of total assets)..... | 30% |
| % Fixed Rate..... | 70% |
| % Variable Rate..... | 30% |
| Average Rate on Swaps..... | 4.9% |
| Average Term on Swaps..... | 3.2 years |
| Current Rate on AMPS..... | 1.1% |

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS
MARCH 31, 2004 (UNAUDITED)

| | | NUMBER OF SHARES | VALUE | DIVID YIE (UNAUDI |
|---------------------------------------|-------------|---------------------|---------------|-------------------------|
| EQUITIES | 143.38% (b) | | | |
| COMMON STOCK | 114.08% | | | |
| DIVERSIFIED | 13.12% | | | |
| Colonial Properties Trust..... | | 582,300 | \$ 23,757,840 | 6.5 |
| Crescent Real Estate Equities Co..... | | 1,396,200 | 25,089,714 | 8.3 |
| iStar Financial..... | | 400,500 | 16,941,150 | 6.6 |
| Vornado Realty Trust..... | | 663,443 | 40,125,033 | 4.7 |
| | | | 105,913,737 | |
| HEALTH CARE | 18.38% | | | |
| Health Care Property Investors..... | | 1,190,400 | 33,688,320 | 5.9 |
| Health Care REIT..... | | 969,625 | 39,366,775 | 5.9 |
| Nationwide Health Properties..... | | 1,205,300 | 26,842,031 | 6.6 |
| Ventas..... | | 1,766,500 | 48,543,420 | 4.7 |
| | | | 148,440,546 | |
| HOTEL | 1.99% | | | |
| Hospitality Properties Trust..... | | 346,400 | 16,072,960 | 6.2 |
| INDUSTRIAL | 4.47% | | | |
| First Industrial Realty Trust..... | | 614,500 | 24,272,750 | 6.9 |
| Keystone Property Trust..... | | 484,900 | 11,787,919 | 5.4 |
| | | | 36,060,669 | |

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| | | | | |
|-------------------------------------|--------|-----------|-------------|-----|
| MORTGAGE | 2.83% | | | |
| Newcastle Investment Corp..... | | 678,528 | 22,866,393 | 7.1 |
| | | | ----- | |
| OFFICE | 32.09% | | | |
| Arden Realty..... | | 826,800 | 26,730,444 | 6.2 |
| Brandywine Realty Trust..... | | 1,140,900 | 34,854,495 | 5.7 |
| CarrAmerica Realty Corp..... | | 1,010,600 | 34,259,340 | 5.9 |
| Equity Office Properties Trust..... | | 1,314,400 | 37,973,016 | 6.9 |
| Highwoods Properties..... | | 670,400 | 17,571,184 | 6.4 |
| HRPT Properties Trust..... | | 635,400 | 7,180,020 | 7.0 |
| Mack-Cali Realty Corp..... | | 1,073,800 | 48,224,358 | 5.6 |
| Maguire Properties..... | | 604,800 | 15,482,880 | 6.2 |
| Prentiss Properties Trust..... | | 1,000,200 | 36,907,380 | 6.0 |
| | | | ----- | |
| | | | 259,183,117 | |
| | | | ----- | |

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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, on which such security trades.
- (b) Percentages indicated are based on the net assets of the fund.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)
MARCH 31, 2004 (UNAUDITED)

| | | NUMBER OF SHARES | VALUE | DIVID YIEL (UNAUDI |
|--|--------|---------------------|--------------|--------------------------|
| | | ----- | ----- | ----- |
| OFFICE/INDUSTRIAL | 8.87% | | | |
| Kilroy Realty Corp..... | | 142,600 | \$ 5,062,300 | 5.5 |
| Liberty Property Trust..... | | 1,065,200 | 47,934,000 | 5.3 |
| Reckson Associates Realty Corp..... | | 663,800 | 18,679,332 | 6.0 |
| | | | ----- | |
| | | | 71,675,632 | |
| | | | ----- | |
| RESIDENTIAL -- APARTMENT | 13.15% | | | |
| AMLI Residential Properties Trust..... | | 77,000 | 2,175,250 | 6.8 |
| Archstone-Smith Trust..... | | 754,100 | 22,253,491 | 5.8 |
| AvalonBay Communities..... | | 307,200 | 16,459,776 | 5.2 |
| Camden Property Trust..... | | 366,600 | 16,478,670 | 5.6 |
| Gables Residential Trust..... | | 586,900 | 21,275,125 | 6.6 |
| Home Properties..... | | 361,600 | 14,735,200 | 6.0 |
| Mid-America Apartment Communities..... | | 309,400 | 11,488,022 | 6.3 |
| Town & Country Trust..... | | 50,000 | 1,360,000 | 6.3 |
| | | | ----- | |

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| | | | | |
|---|--------|-----------|-------------|-----|
| | | | 106,225,534 | |
| | | | ----- | |
| SELF STORAGE | 0.45% | | | |
| Sovran Self Storage..... | | 87,300 | 3,646,521 | 5.7 |
| | | | ----- | |
| SHOPPING CENTER | 18.73% | | | |
| COMMUNITY CENTER | 6.44% | | | |
| Cedar Shopping Centers..... | | 200,000 | 2,838,000 | 4.5 |
| Heritage Property Investment Trust..... | | 449,100 | 13,967,010 | 6.7 |
| Kramont Realty Trust..... | | 1,293,300 | 24,443,370 | 6.8 |
| New Plan Excel Realty Trust..... | | 65,800 | 1,799,630 | 6.0 |
| Urstadt Biddle Properties -- Class A..... | | 544,000 | 8,976,000 | 5.2 |
| | | | ----- | |
| | | | 52,024,010 | |
| | | | ----- | |
| REGIONAL MALL | 12.29% | | | |
| Glimcher Realty Trust..... | | 605,200 | 16,400,920 | 7.0 |
| Macerich Co..... | | 807,857 | 43,543,492 | 4.5 |
| Mills Corp..... | | 737,400 | 39,296,046 | 4.4 |
| | | | ----- | |
| | | | 99,240,458 | |
| | | | ----- | |
| TOTAL SHOPPING CENTER..... | | | 151,264,468 | |
| | | | ----- | |
| TOTAL COMMON STOCK (Identified cost -- \$658,475,296)..... | | | 921,349,577 | |
| | | | ----- | |

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)
MARCH 31, 2004 (UNAUDITED)

| | | NUMBER OF SHARES | VALUE | DIVID YIEL (UNAUDI |
|--|--------|---------------------|--------------|--------------------------|
| | | ----- | ----- | ----- |
| PREFERRED STOCK | 29.30% | | | |
| DIVERSIFIED | 5.94% | | | |
| Colonial Properties Trust, 8.125%, Series D..... | | 64,900 | \$ 1,780,856 | 7.4 |
| Crescent Real Estate Equities Co., 6.75%, Series A (Convertible) (a)..... | | 1,826,000 | 41,687,580 | 7.4 |
| iStar Financial, 7.80%, Series F..... | | 94,600 | 2,454,870 | 7.5 |
| iStar Financial, 7.65%, Series G..... | | 80,000 | 2,080,000 | 7.3 |
| | | | ----- | |
| | | | 48,003,306 | |
| | | | ----- | |
| HEALTH CARE | 0.42% | | | |
| LTC Properties, 8.50%, Series E..... | | 65,600 | 2,381,280 | 5.8 |

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| | | | |
|---|-----------|------------|-----|
| Omega Healthcare Investors, 8.375%, Series D..... | 40,000 | 1,048,000 | 7.9 |
| | | ----- | |
| | | 3,429,280 | |
| | | ----- | |
| HOTEL | 5.83% | | |
| FelCor Lodging Trust, 9.00%, Series B..... | 652,500 | 16,586,550 | 8.8 |
| Host Marriott Corp., 10.00%, Series A..... | 7,000 | 183,050 | 9.5 |
| Host Marriott Corp., 10.00%, Series B..... | 14,100 | 363,921 | 9.6 |
| Host Marriott Corp., 10.00%, Series C..... | 30,700 | 844,250 | 9.0 |
| Innkeepers USA Trust, 8.00%, Series C..... | 56,000 | 1,428,000 | 7.8 |
| LaSalle Hotel Properties, 10.25%, Series A..... | 1,000,000 | 27,670,000 | 9.2 |
| | | ----- | |
| | | 47,075,771 | |
| | | ----- | |
| INDUSTRIAL | 0.26% | | |
| Keystone Property Trust, 9.125%, Series D..... | 75,000 | 2,066,250 | 8.2 |
| | | ----- | |
| MORTGAGE | 0.20% | | |
| Newcastle Investment Corp., 9.75%, Series B..... | 56,000 | 1,593,200 | 8.5 |
| | | ----- | |
| OFFICE | 2.50% | | |
| HRPT Properties Trust, 8.75%, Series B..... | 120,000 | 3,390,000 | 7.7 |
| Highwoods Properties, 8.625%, Series A..... | 13,195 | 14,065,045 | 8.0 |
| Maguire Properties, 7.625%, Series A..... | 106,600 | 2,749,214 | 7.4 |
| | | ----- | |
| | | 20,204,259 | |
| | | ----- | |
| OFFICE/INDUSTRIAL | 0.08% | | |
| PS Business Parks, 9.25%, Series A..... | 10,800 | 271,188 | 9.2 |
| PS Business Parks, 8.75%, Series F..... | 4,100 | 111,561 | 8.0 |
| ProLogis, 8.54%, Series C..... | 4,000 | 241,750 | 7.0 |
| | | ----- | |
| | | 624,499 | |
| | | ----- | |

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

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)
MARCH 31, 2004 (UNAUDITED)

| | NUMBER OF SHARES | VALUE | DIVID YIELD (UNAUDI |
|--------------------------|---------------------|-------|---------------------------|
| | ----- | ----- | ----- |
| RESIDENTIAL -- APARTMENT | 4.30% | | |

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| | | | |
|--|-----------|---------------|-----|
| Apartment Investment & Management Co., 8.75%, Series D..... | 5,530 | \$ 139,467 | 8.6 |
| Apartment Investment & Management Co., 10.10%, Series R..... | 950,000 | 25,460,000 | 9.3 |
| Home Properties, 9.00%, Series F..... | 196,000 | 5,537,000 | 7.9 |
| Mid-America Apartment Communities, 8.30%, Series H..... | 138,100 | 3,632,030 | 7.9 |
| | | ----- | |
| | | 34,768,497 | |
| | | ----- | |
| SHOPPING CENTER | 9.77% | | |
| COMMUNITY CENTER | 4.99% | | |
| Commercial Net Lease Realty, 9.00%, Series A..... | 25,000 | 690,000 | 8.1 |
| Developers Diversified Realty Corp., 8.60%, Series F..... | 1,039,400 | 28,323,650 | 7.8 |
| Federal Realty Investment Trust, 8.50%, Series B..... | 310,300 | 8,576,692 | 7.7 |
| Urstadt Biddle Properties, 8.50%, Series C..... | 24,000 | 2,676,000 | 7.6 |
| | | ----- | |
| | | 40,266,342 | |
| | | ----- | |
| OUTLET CENTER | 0.10% | | |
| Chelsea Property Group, 8.375%, Series A..... | 14,000 | 839,125 | 6.9 |
| | | ----- | |
| REGIONAL MALL | 4.68% | | |
| CBL & Associates Properties, 8.75%, Series B(a).. | 430,000 | 23,370,500 | 8.0 |
| Glimcher Realty Trust, 8.75%, Series F..... | 40,000 | 1,067,200 | 8.2 |
| Glimcher Realty Trust, 8.125%, Series G..... | 40,000 | 1,036,000 | 7.8 |
| Mills Corp., 9.00%, Series B..... | 55,300 | 1,539,552 | 8.0 |
| Mills Corp., 9.00%, Series C..... | 159,600 | 4,428,900 | 8.1 |
| Mills Corp., 8.75%, Series E..... | 84,000 | 2,301,600 | 7.9 |
| Simon Property Group, 8.75%, Series F..... | 30,000 | 829,200 | 7.9 |
| Taubman Centers, 8.30%, Series A..... | 127,600 | 3,218,072 | 8.2 |
| | | ----- | |
| | | 37,791,024 | |
| | | ----- | |
| TOTAL SHOPPING CENTER..... | | 78,896,491 | |
| | | ----- | |
| TOTAL PREFERRED STOCK (Identified cost -- \$212,219,339)..... | | 236,661,553 | |
| | | ----- | |
| TOTAL EQUITIES (Identified cost -- \$870,694,635)..... | | 1,158,011,130 | |
| | | ----- | |

(a) 158,000 shares segregated as collateral for the interest rate swap transactions.

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MARCH 31, 2004 (UNAUDITED)

| | PRINCIPAL AMOUNT | VALUE |
|--|---------------------|----------------|
| | ----- | ----- |
| COMMERCIAL PAPER | 0.32% | |
| UBS Financial, 0.87%, due 04/01/04 | | |
| (Identified cost -- \$2,608,000)..... | \$2,608,000 | \$ 2,608,000 |
| | | ----- |
| TOTAL INVESTMENTS (Identified cost -- \$873,302,635) ... | 143.70% | 1,160,619,130 |
| LIABILITIES IN EXCESS OF OTHER ASSETS | (1.60)% | (12,953,924) |
| 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 for Series T, Series W, Series TH | | |
| and Series F) | (34.67)% | (280,000,000) |
| LIQUIDATION VALUE OF AUCTION MARKET PREFERRED SHARES: | | |
| SERIES M28 (Equivalent to \$25,000 per share based | | |
| on 2,400 shares outstanding) | (7.43)% | (60,000,000) |
| | ----- | ----- |
| NET ASSETS -- APPLICABLE TO COMMON SHARES | | |
| (Equivalent to \$20.79 per share based on 38,856,074 shares of | | |
| capital stock outstanding) | 100.00% | \$ 807,665,206 |
| | ----- | ----- |

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS -- (CONTINUED)

MARCH 31, 2004 (UNAUDITED)

NOTE 1. INVESTMENTS IN INTEREST RATE SWAPS

The fund has entered into interest rate swap transactions with Merrill Lynch Derivative Products, UBS AG, Fleet Global Markets, 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 values of the swaps. The fund has segregated 158,000 shares of CBL & Associates Properties, 8.75%, Series B and 410,000 shares of Crescent Real Estate Equities Co., 6.75%, Series A as collateral for the interest rate swap transactions. Details of the interest rate swap transactions as of March 31, 2004 are as follows:

| COUNTERPARTY | NOTIONAL AMOUNT | FIXED RATE | FLOATING RATE (a) (RESET MONTHLY) | TERMINAT |
|--------------|--------------------|------------|--------------------------------------|----------|
| ----- | ----- | ----- | ----- | ----- |

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| | | | | |
|-----------------------------------|--------------|---------|---------|---------|
| Merrill Lynch Derivative Products | \$46,000,000 | 4.5600% | 1.1000% | April |
| Merrill Lynch Derivative Products | \$46,000,000 | 5.2100% | 1.1000% | April |
| Merrill Lynch Derivative Products | \$46,000,000 | 5.5800% | 1.1000% | April |
| UBS AG | \$24,000,000 | 4.4500% | 1.0900% | April |
| UBS AG | \$24,000,000 | 5.1200% | 1.0900% | April |
| UBS AG | \$24,000,000 | 5.4950% | 1.0900% | April |
| Fleet Global Markets | \$14,000,000 | 3.2125% | 1.0975% | October |
| Royal Bank of Canada | \$14,000,000 | 3.6800% | 1.0900% | October |

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

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

FINANCIAL HIGHLIGHTS (b)
MARCH 31, 2004 (UNAUDITED)

| | TOTAL NET ASSETS | NET ASSET VALUE PER SHARE |
|--|------------------|------------------------------|
| | ----- | ----- |
| NET ASSET VALUE: | | |
| Beginning of period: 12/31/03..... | \$716,083,687 | \$18.43 |
| Net investment income..... | \$10,040,269 | \$ 0.30 |
| Net realized and unrealized gain on investments and interest rate swap transactions..... | 95,329,086 | 2.41 |
| Distributions from net investment income to: | | |
| Common shareholders..... | (12,822,504) | (0.33) |
| Preferred shareholders..... | (965,332) | (0.02) |
| | ----- | ----- |
| Net increase in net asset value..... | 91,581,519 | 2.36 |
| | ----- | ----- |
| End of period: 3/31/2004..... | \$807,665,206 | \$20.79 |
| | ----- | ----- |

AVERAGE ANNUAL TOTAL RETURNS (c)
(PERIODS ENDED MARCH 31, 2004) (UNAUDITED)

ONE YEAR

SINCE INCEPTION (2/28/02)

75.31%

35.77%

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 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 or (iii) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>.

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

(c) Based on net asset value.

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

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

FOR HIGH CURRENT INCOME:

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 TOTAL RETURN:

COHEN & STEERS
REALTY SHARES

IDEAL FOR INVESTORS SEEKING MAXIMUM TOTAL
RETURN THROUGH BOTH CURRENT INCOME AND
CAPITAL APPRECIATION, INVESTING PRIMARILY
IN REITS
SYMBOL: CSRSX
ALSO AVAILABLE: COHEN & STEERS INSTITUTIONAL
REALTY SHARES (CSRIX) REQUIRES A HIGHER
MINIMUM PURCHASE, BUT OFFERS A LOWER TOTAL
EXPENSE RATIO

FOR TOTAL RETURN:

COHEN & STEERS
UTILITY FUND

IDEAL FOR INVESTORS SEEKING MAXIMUM TOTAL
RETURN THROUGH BOTH CURRENT INCOME AND
CAPITAL APPRECIATION, INVESTING PRIMARILY IN
UTILITIES
SYMBOLS: CSUAX, CSUBX, CSUCX, CSUIX

FOR CAPITAL APPRECIATION:

COHEN & STEERS
SPECIAL EQUITY FUND

IDEAL FOR INVESTORS SEEKING MAXIMUM CAPITAL
APPRECIATION, INVESTING IN A LIMITED NUMBER
OF REITS AND OTHER REAL ESTATE COMPANIES
CONCENTRATED, HIGHLY FOCUSED PORTFOLIO
SYMBOL: 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. A PROSPECTUS CONTAINING THIS AND OTHER INFORMATION ABOUT THE FUND MAY BE OBTAINED BY
FOLLOWING THE INSTRUCTIONS ABOVE. PLEASE READ THE PROSPECTUS CAREFULLY BEFORE INVESTING.

COHEN & STEERS SECURITIES, LLC, DISTRIBUTOR

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

OFFICERS AND DIRECTORS

Robert H. Steers
Director and chairman

Martin Cohen
Director and president

Gregory C. Clark
Director

Bonnie Cohen
Director

George Grossman
Director

Richard J. Norman
Director

Frank K. Ross
Director

Willard H. Smith Jr.
Director

Greg E. Brooks
Vice president

Adam Derechin
Vice president and assistant treasurer

Lawrence B. Stoller
Assistant secretary

KEY INFORMATION

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

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

TRANSFER AGENT -- COMMON SHARES
Equiserve Trust Company
150 Royall Street
Canton, MA 02021
(800) 426-5523

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

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

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

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.

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

COHEN & STEERS
QUALITY INCOME REALTY FUND

QUARTERLY REPORT
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