

COHEN & STEERS QUALITY INCOME REALTY FUND INC  
Form N-CSR  
March 07, 2014

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, 2013

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**Item 1. Reports to Stockholders.**

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**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, 2013. The net asset value (NAV) at that date was \$10.53 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 \$9.48.

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

|   | Six Months Ended<br>December 31, 2013 | Year Ended<br>December 31, 2013 |
|---|---------------------------------------|---------------------------------|
| Cohen & Steers Quality Income Realty Fund at NAV <sup>a</sup>   | 3.16%                                 | 3.31%                           |
| Cohen & Steers Quality Income Realty Fund at Market Value <sup>a</sup>  | 12.43%                                | 0.13%                           |
| FTSE NAREIT Equity REIT Index <sup>b</sup>  | 3.78%                                 | 2.47%                           |
| Blended Benchmark 80% FTSE NAREIT Equity REIT Index/20% BofA Merrill Lynch REIT Preferred Securities Index <sup>b</sup> | 4.95%                                 | 0.37%                           |
| S&P 500 Index <sup>b</sup>  | 16.31%                                | 32.39%                          |

*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](http://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

<sup>a</sup> As a closed-end investment company, the price of the Fund's NYSE-traded shares will be set by market forces and at times may deviate from the NAV per share of the Fund.

<sup>b</sup> 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 Standard and Poor's 500

Composite Stock Index (S&P 500 Index) is an unmanaged index of 500 large capitalization, publicly traded stocks representing a variety of industries.

**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 \$0.18 per share on a quarterly basis.

The Fund may pay distributions in excess of the Fund's investment company taxable income and 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.

*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

In 2013, U.S. commercial real estate continued to see strengthening demand across all property sectors, driven by an improving labor market, a housing recovery, increased corporate spending and a stronger global economy. At the same time, new supply remained at a multi-decade low, giving many commercial landlords the leverage to raise rents as existing space was absorbed. As a result, REITs reported generally strong growth in cash flows and, as of the third quarter, had raised dividend payouts by an average of 9% from the prior year.

Against this positive fundamental backdrop, REIT shares were negatively affected by a sharp rise in Treasury yields and concerns of higher interest rates in the near term. On May 22, 2013, the Federal Reserve said it could begin to taper its quantitative-easing (QE) program if economic data continued to show improvements in employment and broader economic growth. Investors responded by selling any asset they perceived as being sensitive to interest rates, including REITs. After rising 20% year to date through May 21, 2013, REITs fell 15% through the remainder of the year. And while they managed to produce a fifth straight year of positive total returns, their 2.5% gain versus 32.4% for the S&P 500 Index was the widest margin of underperformance in 15 years.

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

Among the headwinds facing REITs were concerns about the negative effects of rising Treasury yields on capital costs and property values. However, REIT bond yields were largely unchanged, and transactions in the private market indicated that real estate values were relatively stable, supported by continued cash flow growth and strong investment demand for the types of high-quality properties that REITs typically own. As a result of the divergence between public and private sentiment, most REITs ended the year trading for less than the combined value of their underlying properties.

### *Short-Lease Property Sectors Generally Outperformed*

Returns diverged broadly across the REIT universe, depending largely on a company's ability to grow cash flows in a rising-rate environment. This generally favored short-lease property types such as hotel REITs (27.2% total return<sup>c</sup>), which meaningfully outperformed all other sectors. Hotel companies are typically viewed as the least vulnerable to rising Treasury yields since they can raise room rates on a nightly basis, enabling them to quickly capture increasing economic activity. The sector also benefited from relatively modest revenue expectations coming out of 2012, which most companies easily exceeded as bookings accelerated.

The self storage sector (9.5%) experienced exceptionally strong cash flow growth, driven by accretive acquisitions and reduced promotional activity. Industrial REITs (7.4%) also did well, as a strengthening economy led to increased global trade, manufacturing and shipping volumes. In the shopping center sector (5.0%), expansion by anchor tenants such as Target helped offset headwinds from retailers under pressure from e-commerce. By contrast, investors viewed regional mall REITs ( - 1.0%) as more at risk to slowing retail sales, even punishing those with the best-quality properties, where tenant demand remained strong.

The apartment sector ( - 6.2%) underperformed for a second straight year. Apartments were the only property sector to see meaningful supply growth, which, together with the overhang of a recovery in the "for-sale" housing market, threatened to slow the pace of income growth. Health care REITs ( - 7.1%) also struggled, affected more than others by interest-rate concerns due to their relatively "bond-like" cash flows. Free standing REITs (7.3%) also have long-term lease structures, but outperformed amid consolidation within the sector, including the notable merger of American Realty Capital Properties and Cole Real Estate.

### *REIT Preferred Securities Were Negatively Affected by Rising Treasury Yields*

Preferred securities continued to offer high income rates relative to many corporate bonds, although REIT preferreds experienced significant declines amid the rise in Treasury yields and negative investor sentiment toward fixed income. The standard structure of REIT preferred securities, as long-term fixed-rate instruments without coupon resets, are more sensitive to rising interest rates than most other preferred securities. However, below-investment-grade and non-rated securities fared much better, benefiting from high income rates and wide credit spreads, which helped cushion the effects of rising Treasury yields.

<sup>c</sup> Sector returns as measured by the FTSE NAREIT Equity REIT Index.

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

### *Fund Performance*

The Fund outperformed its blended benchmark based on NAV and market price. The Fund's negative market-price performance reflected a challenging environment for closed-end funds broadly, as concerns of reduced monetary stimulus caused NAV discounts to widen across the closed-end-fund market.

Security selection and an underweight in preferred securities were the dominant contributors to relative performance, as the Fund's allocation to preferreds had a positive absolute return compared with a large decline in the BofA Merrill Lynch REIT Preferred Securities Index. The Fund had almost no allocation to securities in the investment-grade-only index, favoring instead other preferreds that featured higher income rates, wider credit spreads and structures that were less sensitive to changes in interest rates. In addition, our out-of-index allocations to high-yielding corporate bonds and mortgage REITs contributed to both absolute and relative performance.

Within the Fund's equity allocation, stock selection in the apartment sector contributed to relative performance, as the Fund was underweight several securities with meaningful declines. Stock selection in the office and mixed-use office/industrial property sectors (each with a 5.6% return in the index) also helped relative performance. Factors that detracted from relative performance included underweights in both free standing REITs and the relatively small manufactured home sector (10.5%). Stock selection in the shopping center and regional mall sectors also detracted from returns.

### *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), contributed to the Fund's performance for the year compared with its blended benchmark, which is not leveraged.

### *Investment Outlook*

Over the coming year, we expect to see a continuing trend of improving economic growth and a modest rebound in inflation from historically low levels, driving further QE tapering and somewhat higher Treasury yields. Our economic view is modestly more positive than the consensus, as we expect job growth and recent gains in household wealth (due to strong stock-market returns and rising home values) to drive increased consumer spending. According to our estimates, this additional spending, plus a stronger global economy, should contribute to the creation of 2.7 million new jobs in 2014, accelerating from 2.2 million in 2013.

While we expect all property sectors to benefit from rising employment, our focus is on those we believe are the most attractively valued in the context of rising employment and consumer spending. In particular, we favor owners of high-quality retail assets, many of which trade at compelling valuations and continue to see healthy demand from national and regional retailers. We also see attractive value in offices located in urban markets benefiting from job growth in technology, media and life sciences. In the apartment sector, we expect household formation to accelerate as new jobs are added to the economy, releasing pent up demand for all forms of housing. By contrast, we have become more

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

cautious toward industrial REITs, as we believe the market has underestimated the potential for increased supply. We remain cautious toward companies that own health care facilities and suburban offices.

*Preferred Securities and Our Approach to Active Management of Interest-Rate Risk*

In our view, the underperformance of REIT preferreds has created attractive values for long-term investors in many of these securities, particularly when considered in light of the strengthening of REIT credit fundamentals and commercial real estate demand. We continue to see good relative value in the space given the high income offered by REIT preferreds (roughly double that of investment-grade corporate bonds), as well as credit spreads that remain wide of historical levels. We believe that numerous securities are pricing in a much higher rate environment than currently exists, with many investment-grade securities offering yields similar to those reached in 2003-2008, when the 10-year Treasury yield averaged more than 4.0%.

Even with the potential long-term value in many REIT preferreds, we continue to position the portfolio generally defensively relative to interest-rate risk, while seeking opportunities to benefit from an economic recovery. Accordingly, we are focusing on securities with wide credit spreads and high coupons that have the most to gain from improving credit fundamentals. We also remain cautious toward preferreds with tighter spreads, some of which we believe remain more vulnerable to a rising interest-rate environment.



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

Sincerely,

MARTIN COHEN  
*Co-chairman*

ROBERT H. STEERS  
*Co-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.*

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For more information about any of our funds, visit [cohenandsteers.com](http://cohenandsteers.com), where you will find net asset values, fund fact sheets and portfolio highlights. You can also access newsletters, education tools and market updates covering real assets including real estate, listed infrastructure, MLPs and commodities, as well as large cap value and preferred securities.

In addition, our website 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 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, 2013, leverage represented 28% 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<sup>a,b</sup>

|                                     |           |
|-------------------------------------|-----------|
| Leverage (as a % of managed assets) | 28%       |
| % Fixed Rate                        | 85%       |
| % Variable Rate                     | 15%       |
| Weighted Average Rate on Financing  | 1.9%      |
| Weighted Average Term on Financing  | 4.4 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 common 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 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 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 common shareholders. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed.

<sup>a</sup> Data as of December 31, 2013. Information is subject to change.

<sup>b</sup> See Note 7 in Notes to Financial Statements.

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

December 31, 2013

Top Ten Holdings<sup>a</sup>  
(Unaudited)

| Security                  | Value         | % of<br>Managed<br>Assets |
|---------------------------|---------------|---------------------------|
| Simon Property Group      | \$149,093,063 | 9.2                       |
| Prologis                  | 73,983,803    | 4.6                       |
| HCP                       | 68,703,493    | 4.3                       |
| Equity Residential        | 65,615,654    | 4.1                       |
| Vornado Realty Trust      | 62,324,364    | 3.9                       |
| Boston Properties         | 53,672,255    | 3.3                       |
| Public Storage            | 44,421,613    | 2.8                       |
| SL Green Realty Corp.     | 43,154,763    | 2.7                       |
| Ventas                    | 42,022,785    | 2.6                       |
| General Growth Properties | 35,118,245    | 2.2                       |

<sup>a</sup> 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, 2013

|  |               | Number<br>of Shares | Value         |
|--|---------------|---------------------|---------------|
| <b>COMMON STOCK REAL ESTATE</b>                              | <b>114.4%</b> |                     |               |
| <b>DIVERSIFIED</b>   | <b>11.5%</b>  |                     |               |
| American Assets Trust <sup>a,b</sup>                         |               | 387,981             | \$ 12,194,243 |
| BGP Holdings PLC (Australia)<br>(EUR) <sup>c,d,e</sup>       |               | 3,927,678           | 0             |
| Cousins Properties <sup>a</sup>                              |               | 1,547,066           | 15,934,780    |
| Duke Realty Corp. <sup>a,b</sup>                             |               | 1,387,700           | 20,871,008    |
| Forest City Enterprises, Class<br>A <sup>a,b,e</sup>         |               | 396,494             | 7,573,035     |
| Vornado Realty Trust <sup>a,b</sup>                          |               | 701,930             | 62,324,364    |
| WP Carey <sup>a,b</sup>                                      |               | 218,422             | 13,400,190    |
|  |               |                     | 132,297,620   |
| <b>HEALTH CARE</b>   | <b>11.2%</b>  |                     |               |
| Aviv REIT <sup>a</sup>                                       |               | 349,604             | 8,285,615     |
| Emeritus Corp. <sup>a,e</sup>                                |               | 172,103             | 3,722,588     |
| HCP <sup>b</sup>   |               | 1,891,616           | 68,703,493    |
| Healthcare Trust of America,<br>Class A <sup>a,b</sup>       |               | 675,068             | 6,642,669     |
| Ventas <sup>a,b</sup>  |               | 733,638             | 42,022,785    |
|  |               |                     | 129,377,150   |
| <b>HOTEL</b>   | <b>8.8%</b>   |                     |               |
| Hersha Hospitality Trust <sup>a</sup>                        |               | 2,730,028           | 15,206,256    |
| Hilton Worldwide Holdings <sup>e</sup>                       |               | 332,170             | 7,390,782     |
| Host Hotels & Resorts <sup>a,b</sup>                         |               | 1,303,783           | 25,345,542    |
| Hyatt Hotels Corp., Class A <sup>a,b,e</sup>                 |               | 179,580             | 8,882,027     |
| Pebblebrook Hotel Trust <sup>a</sup>                         |               | 532,300             | 16,373,548    |
| Strategic Hotels & Resorts <sup>a,e</sup>                    |               | 1,685,235           | 15,925,471    |
| Sunstone Hotel Investors                                     |               | 910,041             | 12,194,549    |
|  |               |                     | 101,318,175   |
| <b>INDUSTRIALS</b>   | <b>7.7%</b>   |                     |               |
| First Industrial Realty Trust <sup>a</sup>                   |               | 392,600             | 6,850,870     |
| Gramercy Property Trust<br>(Restricted) <sup>c,d,e,f,g</sup> |               | 1,589,355           | 8,471,421     |
| Prologis <sup>a,b</sup>                                      |               | 2,002,268           | 73,983,803    |
|  |               |                     | 89,306,094    |

See accompanying notes to financial statements.

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

## SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

|   |              | Number<br>of Shares | Value         |
|---|--------------|---------------------|---------------|
| <b>OFFICE</b>   | <b>16.4%</b> |                     |               |
| American Realty Capital<br>Properties <sup>a,b</sup>    |              | 1,300,459           | \$ 16,723,903 |
| Boston Properties <sup>a,b</sup>                        |              | 534,744             | 53,672,255    |
| Corporate Office Properties Trust <sup>a</sup>          |              | 695,028             | 16,465,213    |
| Douglas Emmett <sup>a</sup>                             |              | 828,297             | 19,291,037    |
| Empire State Realty Trust, Class<br>A <sup>a</sup>      |              | 890,474             | 13,624,252    |
| Hudson Pacific Properties <sup>a</sup>                  |              | 714,335             | 15,622,507    |
| Parkway Properties                                      |              | 551,648             | 10,641,290    |
| SL Green Realty Corp. <sup>a,b</sup>                    |              | 467,144             | 43,154,763    |
|   |              |                     | 189,195,220   |
| <b>OFFICE/INDUSTRIAL</b>                                | <b>1.5%</b>  |                     |               |
| PS Business Parks <sup>a</sup>                          |              | 232,667             | 17,780,412    |
| <b>RESIDENTIAL APARTMENT</b>                            | <b>16.8%</b> |                     |               |
| Apartment Investment &<br>Management Co. <sup>a,b</sup> |              | 591,704             | 15,331,051    |
| AvalonBay Communities <sup>a</sup>                      |              | 136,572             | 16,146,907    |
| Education Realty Trust <sup>a</sup>                     |              | 1,369,640           | 12,080,225    |
| Equity Residential <sup>a,b</sup>                       |              | 1,265,002           | 65,615,654    |
| Essex Property Trust <sup>a</sup>                       |              | 164,552             | 23,614,857    |
| Mid-America Apartment<br>Communities <sup>a</sup>       |              | 480,557             | 29,189,032    |
| UDR <sup>a,b</sup>                                      |              | 1,378,757           | 32,193,976    |
|   |              |                     | 194,171,702   |
| <b>SELF STORAGE</b>                                     | <b>6.5%</b>  |                     |               |
| CubeSmart <sup>a,b</sup>                                |              | 838,238             | 13,361,514    |
| Public Storage <sup>a,b</sup>                           |              | 295,121             | 44,421,613    |
| Sovran Self Storage                                     |              | 263,791             | 17,191,259    |
|   |              |                     | 74,974,386    |
| <b>SHOPPING CENTERS</b>                                 | <b>31.9%</b> |                     |               |
| <b>COMMUNITY CENTER</b>                                 | <b>8.8%</b>  |                     |               |
| DDR Corp. <sup>a,b</sup>                                |              | 1,364,341           | 20,969,921    |
| Kimco Realty Corp. <sup>a,b</sup>                       |              | 804,403             | 15,886,959    |
| Ramco-Gershenson Properties<br>Trust                    |              | 926,603             | 14,584,731    |
| Regency Centers Corp. <sup>a,b</sup>                    |              | 515,720             | 23,877,836    |
| Tanger Factory Outlet Centers                           |              | 255,173             | 8,170,640     |
| Weingarten Realty Investors                             |              | 679,434             | 18,630,080    |
|   |              |                     | 102,120,167   |

See accompanying notes to financial statements.



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

## SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

|   |              | Number<br>of Shares | Value                |
|---|--------------|---------------------|----------------------|
| <b>FREE STANDING</b>  | <b>1.3%</b>  |                     |                      |
| Realty Income Corp.   |              | 398,296             | \$ 14,868,390        |
| <b>REGIONAL MALL</b>  | <b>21.8%</b> |                     |                      |
| General Growth Properties <sup>a,b</sup>                                      |              | 1,749,788           | 35,118,245           |
| Glimcher Realty Trust <sup>a</sup>  |              | 1,900,405           | 17,787,791           |
| Macerich Co. (The)  |              | 570,512             | 33,597,452           |
| Simon Property Group <sup>a,b</sup>   |              | 979,844             | 149,093,063          |
| Taubman Centers   |              | 245,157             | 15,670,435           |
|   |              |                     | 251,266,986          |
| <b>TOTAL SHOPPING CENTERS</b>   |              |                     | <b>368,255,543</b>   |
| <b>SPECIALTY</b>  | <b>2.1%</b>  |                     |                      |
| Digital Realty Trust <sup>a,b</sup>   |              | 489,590             | 24,048,661           |
| <b>TOTAL COMMON STOCK</b><br>(Identified cost \$1,021,775,613)                |              |                     | <b>1,320,724,963</b> |
| <b>PREFERRED SECURITIES \$25<br/>PAR VALUE</b>                                | <b>16.1%</b> |                     |                      |
| <b>BANKS</b>  | <b>0.9%</b>  |                     |                      |
| Ally Financial, 7.25%, due<br>2/7/33 <sup>a</sup>                             |              | 256,975             | 6,516,886            |
| Huntington Bancshares, 8.50%,<br>Series A (\$1,000 Par<br>Value)(Convertible) |              | 3,000               | 3,795,000            |
|   |              |                     | 10,311,886           |
| <b>INSURANCE</b>  | <b>0.9%</b>  |                     |                      |
| <b>MULTI-LINE</b>   | <b>0.2%</b>  |                     |                      |
| Hartford Financial Services<br>Group, 7.875%,<br>due 4/15/42                  |              | 70,000              | 2,006,200            |
| <b>MULTI-LINE FOREIGN</b>   | <b>0.7%</b>  |                     |                      |
| ING Groep N.V., 7.05%<br>(Netherlands) <sup>a,b</sup>                         |              | 205,000             | 5,163,950            |
| ING Groep N.V., 7.375%<br>(Netherlands)                                       |              | 139,904             | 3,553,562            |
|   |              |                     | 8,717,512            |
| <b>TOTAL INSURANCE</b>  |              |                     | <b>10,723,712</b>    |

See accompanying notes to financial statements.



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

## SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

|   |              | Number<br>of Shares | Value        |
|---|--------------|---------------------|--------------|
| <b>REAL ESTATE</b>  | <b>14.3%</b> |                     |              |
| <b>DIVERSIFIED</b>  | <b>4.1%</b>  |                     |              |
| Colony Financial, 8.50%, Series A <sup>a</sup>                        |              | 315,000             | \$ 7,875,000 |
| Cousins Properties, 7.50%, Series B <sup>a</sup>                      |              | 307,775             | 7,740,542    |
| DuPont Fabros Technology, 7.875%, Series A <sup>a</sup>               |              | 200,000             | 4,788,000    |
| DuPont Fabros Technology, 7.625%, Series B <sup>a</sup>               |              | 230,000             | 5,237,100    |
| EPR Properties, 9.00%, Series E (Convertible) <sup>a</sup>            |              | 191,000             | 5,302,160    |
| Lexington Realty Trust, 6.50%, Series C (\$50 Par Value) <sup>a</sup> |              | 76,395              | 3,403,397    |
| National Retail Properties, 5.70%                                     |              | 99,783              | 1,895,877    |
| NorthStar Realty Finance Corp., 8.50%, Series D                       |              | 168,900             | 3,933,681    |
| Urstadt Biddle Properties, 7.125%, Series F <sup>c</sup>              |              | 106,600             | 2,454,998    |
| Vornado Realty Trust, 6.625%, Series I                                |              | 110,000             | 2,524,500    |
| Winthrop Realty Trust, 7.75%, due 8/15/22                             |              | 100,000             | 2,520,000    |
|   |              |                     | 47,675,255   |
| <b>HOTEL</b>  | <b>3.3%</b>  |                     |              |
| Ashford Hospitality Trust, 9.00%, Series E <sup>a</sup>               |              | 405,000             | 10,736,550   |
| Chesapeake Lodging Trust, 7.75%, Series A <sup>a</sup>                |              | 200,000             | 4,918,000    |
| Hersha Hospitality Trust, 8.00%, Series B <sup>a</sup>                |              | 150,000             | 3,778,500    |
| Hospitality Properties Trust, 7.125%, Series D                        |              | 123,725             | 2,861,759    |
| LaSalle Hotel Properties, 7.25%, Series G                             |              | 122,162             | 2,891,575    |
| Pebblebrook Hotel Trust, 7.875%, Series A <sup>a</sup>                |              | 220,000             | 5,493,400    |
| Pebblebrook Hotel Trust, 6.50%, Series C                              |              | 160,000             | 3,257,600    |
| Sunstone Hotel Investors, 8.00%, Series D <sup>a</sup>                |              | 180,000             | 4,500,000    |

|  |         |            |
|--|---------|------------|
|  |         | 38,437,384 |
| <b>INDUSTRIALS</b>   | 0.9%    |            |
| First Potomac Realty Trust,<br>7.75%, Series A <sup>a</sup>                | 130,000 | 3,139,500  |
| Monmouth Real Estate Investment<br>Corp.,<br>7.63%, Series A <sup>c</sup>  | 200,000 | 5,020,000  |
| Monmouth Real Estate Investment<br>Corp.,<br>7.875%, Series B <sup>c</sup> | 80,000  | 1,990,400  |
|  |         | 10,149,900 |

See accompanying notes to financial statements.

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

## SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

|  |             | Number<br>of Shares | Value             |
|--|-------------|---------------------|-------------------|
| <b>OFFICE</b>  | <b>0.9%</b> |                     |                   |
| CommonWealth REIT, 6.50%,<br>Series D (Convertible) <sup>a</sup>           |             | 173,800             | \$ 3,564,638      |
| Corporate Office Properties Trust,<br>7.375%, Series L <sup>a</sup>        |             | 160,000             | 3,766,400         |
| Hudson Pacific Properties,<br>8.375%, Series B                             |             | 90,000              | 2,380,950         |
|  |             |                     | 9,711,988         |
| <b>RESIDENTIAL</b>   | <b>1.4%</b> |                     |                   |
| <b>APARTMENT</b>   | <b>0.4%</b> |                     |                   |
| Alexandria Real Estate Equities,<br>7.00%, Series D <sup>a</sup>           |             | 199,200             | 4,999,920         |
| <b>MANUFACTURED HOME</b>   | <b>1.0%</b> |                     |                   |
| Campus Crest Communities,<br>8.00%, Series A <sup>a</sup>                  |             | 337,126             | 8,327,012         |
| Equity Lifestyle Properties, 6.75%,<br>Series C                            |             | 115,994             | 2,664,962         |
|  |             |                     | 10,991,974        |
| <b>TOTAL RESIDENTIAL</b>   |             |                     | <b>15,991,894</b> |
| <b>SHOPPING CENTERS</b>  | <b>3.7%</b> |                     |                   |
| <b>COMMUNITY CENTER</b>  | <b>1.9%</b> |                     |                   |
| Cedar Realty Trust, 7.25%, Series<br>B <sup>a</sup>                        |             | 160,000             | 3,680,000         |
| DDR Corp., 7.375%, Series H  |             | 76,284              | 1,907,100         |
| DDR Corp., 6.50%, Series J <sup>a</sup>                                    |             | 340,000             | 7,412,000         |
| Kite Realty Group Trust, 8.25%,<br>Series A                                |             | 140,000             | 3,535,000         |
| Regency Centers Corp., 6.625%,<br>Series 6                                 |             | 200,000             | 4,340,000         |
| Weingarten Realty Investors,<br>6.50%, Series F                            |             | 53,571              | 1,212,312         |
|  |             |                     | 22,086,412        |
| <b>REGIONAL MALL</b>   | <b>1.8%</b> |                     |                   |
| CBL & Associates Properties,<br>7.375%, Series D <sup>a</sup>              |             | 546,988             | 12,990,965        |
| General Growth Properties,<br>6.375%, Series A                             |             | 120,644             | 2,430,976         |
| Pennsylvania REIT, 8.25%, Series<br>A                                      |             | 159,000             | 4,017,930         |
| Simon Property Group, 8.375%,<br>Series J<br>(\$50 Par Value) <sup>c</sup> |             | 13,400              | 810,030           |

|   |             |
|---|-------------|
|   | 20,249,901  |
| TOTAL SHOPPING CENTERS  | 42,336,313  |
| TOTAL REAL ESTATE   | 164,302,734 |
| TOTAL PREFERRED<br>SECURITIES \$25 PAR VALUE<br>(Identified cost \$180,991,774) | 185,338,332 |

See accompanying notes to financial statements.

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

## SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

|  |      | Number<br>of Shares | Value        |
|--|------|---------------------|--------------|
| PREFERRED  |      |                     |              |
| SECURITIES CAPITAL   |      |                     |              |
| SECURITIES   | 7.5% |                     |              |
| BANKS  | 0.6% |                     |              |
| Farm Credit Bank of Texas,<br>10.00%, Series I <sup>a</sup>                        |      | 6,000               | \$ 7,008,750 |
| BANKS FOREIGN  | 4.7% |                     |              |
| Banco Bilbao Vizcaya Argentaria<br>SA, 9.00% (Spain) <sup>d</sup>                  |      | 6,400,000           | 6,920,000    |
| Barclays PLC, 8.00% (United<br>Kingdom) (EUR)                                      |      | 2,150,000           | 2,981,682    |
| Barclays PLC, 8.25%, (United<br>Kingdom) <sup>a</sup>                              |      | 4,001,000           | 4,138,534    |
| Commerzbank AG, 8.125%, due<br>9/19/23,<br>144A (Germany) <sup>h</sup>             |      | 5,400,000           | 5,980,500    |
| Credit Agricole SA, 8.125%, due<br>9/19/33,<br>144A (France) <sup>a,h</sup>        |      | 4,500,000           | 4,978,125    |
| Credit Suisse Group AG, 7.50%,<br>144A<br>(Switzerland) <sup>h</sup>               |      | 3,291,000           | 3,481,220    |
| Dresdner Funding Trust I,<br>8.151%, due 6/30/31,<br>144A (Germany) <sup>a,h</sup> |      | 8,500,000           | 8,840,000    |
| HBOS Capital Funding LP, 6.85%<br>(United Kingdom)                                 |      | 7,200,000           | 7,133,990    |
| KBC Bank NV, 8.00%, due<br>1/25/23 (Belgium)                                       |      | 4,600,000           | 5,060,000    |
| Royal Bank of Scotland Group<br>PLC, 7.648%<br>(United Kingdom)                    |      | 4,000,000           | 4,220,000    |
|  |      |                     | 53,734,051   |
| INSURANCE  | 2.2% |                     |              |
| LIFE/HEALTH INSURANCE  | 0.3% |                     |              |
| Provident Financing Trust I,<br>7.405%, due 3/15/38                                |      | 3,650,000           | 3,932,875    |
| LIFE/HEALTH  |      |                     |              |
| INSURANCE FOREIGN  | 0.7% |                     |              |
| La Mondiale Vie, 7.625% (France)   |      | 7,250,000           | 7,721,250    |
| MULTI-LINE FOREIGN   | 0.3% |                     |              |
| AXA SA, 6.463%, 144A (France) <sup>h</sup>   |      | 3,250,000           | 3,323,125    |

|  |             |           |                   |
|--|-------------|-----------|-------------------|
| <b>PROPERTY CASUALTY</b>   | <b>0.3%</b> |           |                   |
| Liberty Mutual Group, 7.80%, due<br>3/15/37, 144A <sup>a,h</sup> |             | 3,525,000 | 3,807,000         |
| <b>REINSURANCE FOREIGN</b>                                       | <b>0.6%</b> |           |                   |
| Catlin Insurance Co., 7.249%,<br>144A (Bermuda) <sup>a,d,h</sup> |             | 6,640,000 | 6,938,800         |
| <b>TOTAL INSURANCE</b>   |             |           | <b>25,723,050</b> |
| <b>TOTAL PREFERRED<br/>SECURITIES CAPITAL<br/>SECURITIES</b>     |             |           |                   |
| (Identified cost \$80,863,696)                                   |             |           | 86,465,851        |

See accompanying notes to financial statements.

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

## SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

|  |        | Principal<br>Amount    | Value           |
|--|--------|------------------------|-----------------|
| CORPORATE BOND REAL<br>ESTATE SHOPPING<br>CENTERS  | 0.5%   |                        |                 |
| General Shopping Finance<br>Ltd., 10.00%, 144A<br>(Cayman Islands) <sup>c,h</sup>                                |        | \$6,657,000            | \$ 5,891,578    |
| TOTAL CORPORATE<br>BONDS<br>(Identified cost \$6,657,000)  |        |                        | 5,891,578       |
|  |        | Number<br>of Shares    |                 |
| SHORT-TERM<br>INVESTMENTS  | 0.4%   |                        |                 |
| MONEY MARKET FUNDS   |        |                        |                 |
| State Street Institutional<br>Treasury Money<br>Market Fund, 0.06% <sup>i</sup>                                  |        | 4,000,000              | 4,000,000       |
| TOTAL SHORT-TERM<br>INVESTMENTS<br>(Identified cost \$4,000,000)   |        |                        | 4,000,000       |
| TOTAL INVESTMENTS<br>(Identified<br>cost \$1,294,288,084)  | 138.9% |                        | 1,602,420,724   |
| WRITTEN CALL OPTIONS   | 0.0    |                        | (181,370)       |
| LIABILITIES IN EXCESS OF<br>OTHER ASSETS   | (38.9) |                        | (448,180,717)   |
| NET ASSETS (Equivalent to<br>\$10.53 per share<br>based on 109,646,321 shares<br>of common<br>stock outstanding) | 100.0% |                        | \$1,154,058,637 |
|  |        | Number of<br>Contracts |                 |
| WRITTEN CALL OPTIONS   | 0.0%   |                        |                 |
| Gramercy Property Trust,<br>USD Strike Price 5.73,<br>4/17/14  |        | 5,881                  | (181,370)       |
| TOTAL WRITTEN CALL<br>OPTIONS<br>(Premiums<br>received \$117,914)  |        |                        | \$ (181,370)    |

See accompanying notes to financial statements.



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

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

Glossary of Portfolio Abbreviations

EUR Euro Currency

REIT Real Estate Investment Trust

USD United States Dollar

Note: Percentages indicated are based on the net assets of the Fund.

<sup>a</sup> All or a portion of the security is pledged as collateral in connection with the Fund's revolving credit agreement. \$924,488,687 in aggregate has been pledged as collateral.

<sup>b</sup> A portion of the security has been rehypothecated in connection with the Fund's revolving credit agreement. \$391,265,800 in aggregate has been rehypothecated.

<sup>c</sup> Illiquid security. Aggregate holdings equal 2.1% of the net assets of the Fund.

<sup>d</sup> Fair valued security. This security has been valued at its fair value as determined in good faith under procedures established by and under the general supervision of the Fund's Board of Directors. Aggregate fair valued securities represent 1.9% of the net assets of the Fund.

<sup>e</sup> Non-income producing security.

<sup>f</sup> All or a portion of the security is segregated as collateral in connection with written option contracts. \$213,204 in aggregate has been segregated as collateral.

<sup>g</sup> Resale is restricted due to a lock-up period on all shares, expiring on March 25, 2014. Aggregate holdings equal 0.7% of the net assets of the Fund, all of which are illiquid.

<sup>h</sup> Resale is restricted to qualified institutional investors. Aggregate holdings equal 3.7% of the net assets of the Fund, of which 0.5% are illiquid.

<sup>i</sup> Rate quoted represents the seven-day yield of the Fund.

See accompanying notes to financial statements.



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

## STATEMENT OF ASSETS AND LIABILITIES

December 31, 2013

**ASSETS:**

|   |                      |
|---|----------------------|
| Investments in securities, at value (Identified cost \$1,294,288,084) | \$1,602,420,724      |
| Cash  | 4,391,094            |
| Receivable for:   |                      |
| Dividends and interest  | 8,892,762            |
| Investment securities sold  | 1,142,155            |
| Other assets  | 5,726                |
| <b>Total Assets</b>   | <b>1,616,852,461</b> |

**LIABILITIES:**

|                                       |                        |
|---------------------------------------|------------------------|
| Payable for:                          |                        |
| Revolving credit agreement            | 460,000,000            |
| Investment management fees            | 1,170,457              |
| Dividends declared on common shares   | 1,141,775              |
| Options (Premiums received \$117,914) | 181,370                |
| Interest expense                      | 47,261                 |
| Administration fees                   | 27,540                 |
| Directors' fees                       | 3,780                  |
| Other liabilities                     | 221,641                |
| <b>Total Liabilities</b>              | <b>462,793,824</b>     |
| <b>NET ASSETS</b>                     | <b>\$1,154,058,637</b> |

**NET ASSETS consist of:**

|   |                        |
|---|------------------------|
| Paid-in capital                                 | \$ 934,301,774         |
| Accumulated undistributed net investment income | 2,528,453              |
| Accumulated net realized loss                   | (90,748,889)           |
| Net unrealized appreciation                     | 307,977,299            |
|   | <b>\$1,154,058,637</b> |

**NET ASSET VALUE PER COMMON SHARE:**

|  |                |
|--|----------------|
| (\$1,154,058,637 ÷ 109,646,321 shares outstanding) | \$ 10.53       |
| <b>MARKET PRICE PER COMMON SHARE</b>               | <b>\$ 9.48</b> |

**MARKET PRICE DISCOUNT TO NET ASSET VALUE  
PER COMMON SHARE**

(9.97)%

See accompanying notes to financial statements.

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

## STATEMENT OF OPERATIONS

For the Year Ended December 31, 2013

|   |               |
|---|---------------|
| Investment Income:  |               |
| Dividend income (net of \$6,914 of foreign withholding tax) | \$ 46,372,094 |
| Interest income   | 5,985,614     |
| Rehypothecation income                                      | 89,077        |
| Total Investment Income                                     | 52,446,785    |
| Expenses:   |               |
| Investment management fees                                  | 14,567,280    |
| Interest expense  | 8,638,757     |
| Administration fees   | 571,438       |
| Line of credit fees   | 382,312       |
| Shareholder reporting expenses                              | 317,616       |
| Custodian fees and expenses                                 | 199,859       |
| Professional fees   | 101,949       |
| Directors' fees and expenses                                | 74,970        |
| Transfer agent fees and expenses                            | 26,089        |
| Registration and filing fees                                | 9,238         |
| Miscellaneous   | 164,587       |
| Total Expenses  | 25,054,095    |
| Net Investment Income                                       | 27,392,690    |
| Net Realized and Unrealized Gain (Loss):                    |               |
| Net realized gain (loss) on:                                |               |
| Investments   | 81,935,152    |
| Options   | 113,772       |
| Foreign currency transactions                               | (1,791)       |
| Net realized gain   | 82,047,133    |
| Net change in unrealized appreciation (depreciation) on:    |               |
| Investments   | (72,830,518)  |
| Options   | (63,456)      |
| Foreign currency translations                               | 40            |
| Net change in unrealized appreciation (depreciation)        | (72,893,934)  |
| Net realized and unrealized gain                            | 9,153,199     |
| Net Increase in Net Assets Resulting from Operations        | \$ 36,545,889 |

See accompanying notes to financial statements.

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

## STATEMENT OF CHANGES IN NET ASSETS

|   | For the<br>Year Ended<br>December 31, 2013 | For the<br>Year Ended<br>December 31, 2012 |
|---|--|--|
| Change in Net Assets Applicable to Common Shares:                         |  |  |
| From Operations:  |  |  |
| Net investment income   | \$ 27,392,690                              | \$ 30,978,445                              |
| Net realized gain   | 82,047,133                                 | 89,777,921                                 |
| Net change in unrealized<br>appreciation<br>(depreciation)                | (72,893,934)                               | 116,131,441                                |
| Net increase in net assets<br>resulting<br>from operations                | 36,545,889                                 | 236,887,807                                |
| Dividends and Distributions to<br>Common<br>Shareholders from:            |  |  |
| Net investment income   | (28,897,926)                               | (23,026,059)                               |
| Net realized gain   | (50,356,877)                               | (56,191,035)                               |
| Total dividends and distributions<br>to<br>common shareholders            | (79,254,803)                               | (79,217,094)                               |
| Capital Stock Transactions:   |  |  |
| Increase (decrease) in net<br>assets from Fund share<br>transactions      | (4,056,609)                                | 1,080,006                                  |
| Total increase (decrease) in net<br>assets<br>applicable to common shares | (46,765,523)                               | 158,750,719                                |
| Net Assets Applicable to Common Shares:                                   |  |  |
| Beginning of year   | 1,200,824,160                              | 1,042,073,441                              |
| End of year <sup>a</sup>  | \$ 1,154,058,637                           | \$ 1,200,824,160                           |

<sup>a</sup> Includes accumulated undistributed net investment income of \$2,528,453 and \$3,498,440, respectively.

See accompanying notes to financial statements.

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

## STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2013

|   |               |
|---|---------------|
| Increase in Cash:   |               |
| Cash Flows from Operating Activities:   |               |
| Net increase in net assets resulting from operations  | \$ 36,545,889 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities: |               |
| Purchases of long-term investments  | (942,514,335) |
| Net purchases, sales and maturities of short-term investments   | 27,601,601    |
| Net amortization of premium   | 60,244        |
| Proceeds from sales and maturities of long-term investments   | 975,425,564   |
| Net increase in dividends and interest receivable and other assets  | (642,374)     |
| Net decrease in interest expense payable, accrued expenses and other liabilities  | (488,163)     |
| Increase in premiums received from options  | 117,914       |
| Net change in unrealized depreciation on options  | 63,456        |
| Net change in unrealized depreciation on investments  | 72,830,518    |
| Net realized gain on investments  | (81,935,152)  |
| Cash provided by operating activities   | 87,065,162    |
| Cash Flows from Financing Activities:   |               |
| Decrease in net assets from Fund share transactions   | (5,111,444)   |
| Dividends and Distributions paid on common shares   | (78,114,934)  |
| Cash used for financing activities  | (83,226,378)  |
| Increase in cash  | 3,838,784     |
| Cash at beginning of year   | 552,310       |
| Cash at end of year   | \$ 4,391,094  |
| Supplemental Disclosure of Cash Flow Information:   |               |

During the year ended December 31, 2013, reinvestment of dividends on common shares was \$1,054,835.

During the year ended December 31, 2013, interest paid was \$8,686,328.

See accompanying notes to financial statements.



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

## FINANCIAL HIGHLIGHTS

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

For the Year Ended December 31,

| Per Share<br>Operating<br>Performance:                                   | 2013              | 2012              | 2011    | 2010    | 2009                |
|--|-------------------|-------------------|---------|---------|---------------------|
| Net asset value per<br>common share,<br>beginning of year                | \$ 10.91          | \$ 9.47           | \$ 9.56 | \$ 7.44 | \$ 5.38             |
| Income (loss) from investment operations:                                |                   |                   |         |         |                     |
| Net investment<br>income   | 0.25 <sup>a</sup> | 0.28 <sup>a</sup> | 0.65    | 0.41    | 0.27                |
| Net realized and<br>unrealized gain<br>(loss)                            | 0.08 <sup>b</sup> | 1.88              | (0.02)  | 2.25    | 2.20                |
| Total from<br>investment<br>operations                                   | 0.33              | 2.16              | 0.63    | 2.66    | 2.47                |
| Less dividends and distributions to preferred<br>shareholders from:      |                   |                   |         |         |                     |
| Net investment<br>income   |                   |                   |         |         | (0.00) <sup>c</sup> |
| Total dividends and<br>distributions to<br>preferred<br>shareholders     |                   |                   |         |         | (0.00) <sup>c</sup> |
| Total from<br>investment<br>operations<br>applicable to<br>common shares | 0.33              | 2.16              | 0.63    | 2.66    | 2.47                |
| Less dividends and distributions to<br>common shareholders from:         |                   |                   |         |         |                     |
| Net investment<br>income   | (0.26)            | (0.21)            | (0.65)  | (0.39)  | (0.26)              |
| Net realized gain  | (0.46)            | (0.51)            | (0.07)  | (0.16)  |                     |
| Tax return of capital  |                   |                   |         |         | (0.15)              |
| Total dividends and<br>distributions<br>to common<br>shareholders        | (0.72)            | (0.72)            | (0.72)  | (0.55)  | (0.41)              |
| Anti-dilutive effect<br>from the issuance                                | 0.00 <sup>c</sup> | 0.00 <sup>c</sup> |         |         |                     |



|   |          |          |         |         |                     |
|---|----------|----------|---------|---------|---------------------|
| of<br>reinvested common<br>shares                                       |          |          |         |         |                     |
| Anti-dilutive effect<br>from the<br>repurchase of<br>common shares      | 0.01     |          |         | 0.01    |                     |
| Net increase<br>(decrease) in net<br>asset<br>value per common<br>share | (0.38)   | 1.44     | (0.09)  | 2.12    | 2.06                |
| Net asset value,<br>per common share,<br>end of year                    | \$ 10.53 | \$ 10.91 | \$ 9.47 | \$ 9.56 | \$ 7.44             |
| Market value, per<br>common share,<br>end of year                       | \$ 9.48  | \$ 10.16 | \$ 8.47 | \$ 8.65 | \$ 6.07             |
| Total net asset<br>value return <sup>d</sup>                            | 3.31%    | 23.32%   | 7.31%   | 37.80%  | 54.24% <sup>e</sup> |
| Total market value<br>return <sup>d</sup>                               | -0.13%   | 28.40%   | 6.07%   | 52.82%  | 77.83%              |

See accompanying notes to financial statements.

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

## FINANCIAL HIGHLIGHTS (Continued)

For the Year Ended December 31,

| Ratios/Supplemental Data:   | 2013      | 2012      | 2011      | 2010      | 2009               |
|---|-----------|-----------|-----------|-----------|--------------------|
| Net assets applicable to common shares, end of year (in millions)   | \$1,154.1 | \$1,200.8 | \$1,042.1 | \$1,051.8 | \$716.6            |
| Ratio of expenses to average daily net assets applicable to common shares (before expense reduction)                                | 2.00%     | 1.80%     | 1.90%     | 2.10%     | 3.42% <sup>f</sup> |
| Ratio of expenses to average daily net assets applicable to common shares (net of expense reduction)                                | 2.00%     | 1.80%     | 1.87%     | 1.98%     | 3.18% <sup>f</sup> |
| Ratio of expenses to average daily net assets applicable to common shares (net of expense reduction and excluding interest expense) | 1.31%     | 1.30%     | 1.32%     | 1.36%     | 2.61% <sup>f</sup> |
| Ratio of net investment income to average daily net assets applicable to common shares (before expense reduction)                   | 2.18%     | 2.65%     | 2.62%     | 2.87%     | 5.62% <sup>f</sup> |
| Ratio of net investment income to average daily net assets applicable to common shares (net of expense reduction)                   | 2.18%     | 2.65%     | 2.65%     | 2.99%     | 5.85% <sup>f</sup> |
| Ratio of expenses to average daily  | 1.46%     | 1.29%     | 1.33%     | 1.43%     | 2.04% <sup>f</sup> |

|   |       |       |       |       |                    |
|---|-------|-------|-------|-------|--------------------|
| managed assets (before expense reduction) <sup>g</sup>                                    |       |       |       |       |                    |
| Ratio of expenses to average daily managed assets (net of expense reduction) <sup>g</sup> | 1.46% | 1.29% | 1.31% | 1.35% | 1.90% <sup>f</sup> |
| Portfolio turnover rate   | 56%   | 55%   | 53%   | 77%   | 77%                |

See accompanying notes to financial statements.

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

## FINANCIAL HIGHLIGHTS (Continued)

For the Year Ended December 31,

| Preferred Shares/Revolving Credit Agreement:              | 2013     | 2012     | 2011     | 2010              | 2009              |
|---|----------|----------|----------|-------------------|-------------------|
| Asset coverage ratio for revolving credit agreement       | 351%     | 361%     | 327%     | 329% <sup>h</sup> | 294% <sup>h</sup> |
| Asset coverage per \$1,000 for revolving credit agreement | \$ 3,509 | \$ 3,610 | \$ 3,265 | \$ 3,286          | \$ 2,938          |

<sup>a</sup> Calculation based on average shares outstanding.

<sup>b</sup> Includes gains resulting from class action litigation payments on securities owned in prior years. Without these gains, the net realized and unrealized gains (losses) on investments per share would have been \$0.07 and the total return on an NAV basis would have been 3.25%.

<sup>c</sup> Amount is less than \$0.005.

<sup>d</sup> Total net asset value return measures the change in net asset value per share over the period indicated. Total market value return is computed based upon the Fund's NYSE market price per share and excludes the effects of brokerage commissions. Dividends and distributions are assumed, for purposes of these calculations, to be reinvested at prices obtained under the Fund's dividend reinvestment plan.

<sup>e</sup> Reflects adjustments in accordance with accounting principles generally accepted in the United States of America and as such, the net asset value for financial reporting purposes and the returns based upon those net asset values differ from the net asset value and returns reported on December 31, 2008.

<sup>f</sup> Ratios do not reflect dividend payments to preferred shareholders, where applicable.

<sup>g</sup> Average daily managed assets represent net assets applicable to common shares plus liquidation preference of preferred shares and/or the outstanding balance of the revolving credit agreement.

<sup>h</sup> For the period June 1, 2009 through June 10, 2010, the Fund utilized temporary relief from the Securities and Exchange Commission permitting the Fund to maintain 200% asset coverage.

See accompanying notes to financial statements.



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

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Cohen & Steers Quality Income Realty Fund, Inc. (the Fund) was incorporated under the laws of the State of Maryland on August 22, 2001 and is registered under the Investment Company Act of 1940, as amended (the 1940 Act), as a non-diversified, closed-end management investment company. The Fund's investment objective is high current income.

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

*Portfolio Valuation:* Investments in securities that are listed on the NYSE are valued, except as indicated below, at the last sale price reflected at the close of the NYSE on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the closing bid and ask prices on such day or, if no ask price is available, at the bid price. Exchange traded options are valued at their last sale price as of the close of options trading on applicable exchanges on the valuation date. In the absence of a last sale price on such day, options are valued at the average of the quoted bid and ask prices as of the close of business. Over-the-counter options are valued based upon prices provided by the respective counterparty.

Securities not listed on the NYSE but listed on other domestic or foreign securities exchanges are valued in a similar manner. Securities traded on more than one securities exchange are valued at the last sale price reflected at the close of the exchange representing the principal market for such securities on the business day as of which such value is being determined. If after the close of a foreign market, but prior to the close of business on the day the securities are being valued, market conditions change significantly, certain non-U.S. equity holdings may be fair valued pursuant to procedures established by the Board of Directors.

Readily marketable securities traded in the over-the-counter market, including listed securities whose primary market is believed by Cohen & Steers Capital Management, Inc. (the investment manager) to be over-the-counter, are valued at the last sale price on the valuation date as reported by sources deemed appropriate by the Board of Directors to reflect their fair market value. If there has been no sale on such day, the securities are valued at the mean of the closing bid and ask prices on such day or, if no ask price is available, at the bid price. However, certain fixed-income securities may be valued on the basis of prices provided by a pricing service when such prices are believed by the investment manager, pursuant to delegation by the Board of Directors, to reflect the fair market value of such securities.

Short-term debt securities with a maturity date of 60 days or less are valued at amortized cost, which approximates fair value. Investments in open-end mutual funds are valued at their closing net asset value.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

The policies and procedures approved by the Fund's Board of Directors delegate authority to make fair value determinations to the investment manager, subject to the oversight of the Board of Directors. The investment manager has established a valuation committee (Valuation Committee) to administer, implement and oversee the fair valuation process according to the policies and procedures approved annually by the Board of Directors. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers and other market sources to determine fair value.

Securities for which market prices are unavailable, or securities for which the investment manager determines that the bid and/or ask price or a counterparty valuation does not reflect market value, will be valued at fair value, as determined in good faith by the Valuation Committee, pursuant to procedures approved by the Fund's Board of Directors. Circumstances in which market prices may be unavailable include, but are not limited to, when trading in a security is suspended, the exchange on which the security is traded is subject to an unscheduled close or disruption or material events occur after the close of the exchange on which the security is principally traded. In these circumstances, the Fund determines fair value in a manner that fairly reflects the market value of the security on the valuation date based on consideration of any information or factors it deems appropriate. These may include, but are not limited to, recent transactions in comparable securities, information relating to the specific security and developments in the markets.

Foreign equity fair value pricing procedures utilized by the Fund may cause certain non-U.S. equity holdings to be fair valued on the basis of fair value factors provided by a pricing service to reflect any significant market movements between the time the Fund values such securities and the earlier closing of foreign markets.

The Fund's use of fair value pricing may cause the net asset value of Fund shares to differ from the net asset value that would be calculated using market quotations. Fair value pricing involves subjective judgments and it is possible that the fair value determined for a security may be materially different than the value that could be realized upon the sale of that security.

Fair value is defined as the price that the Fund would expect to receive upon the sale of an investment or expect to pay to transfer a liability in an orderly transaction with an independent buyer in the principal market or, in the absence of a principal market, the most advantageous market for the investment or liability. The hierarchy of inputs that are used in determining the fair value of the Fund's investments is summarized below.

- Level 1 quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.)
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.





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

## NOTES TO FINANCIAL STATEMENTS (Continued)

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfer at the end of the period in which the underlying event causing the movement occurred. Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy. As of December 31, 2013, there was a transfer of \$4,999,920 between Level 1 and Level 2, which resulted from a change in the use of an exchange traded price to an evaluated mean price, supplied by an independent pricing service, for one security.

The following is a summary of the inputs used as of December 31, 2013 in valuing the Fund's investments carried at value:

|   | Total          | Quoted Prices<br>In Active<br>Markets for<br>Identical<br>Investments<br>(Level 1) | Other<br>Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) <sup>a</sup> |
|---|----------------|--|---|---|
| Common<br>Stock<br>Real Estate<br>Diversified   | \$ 132,297,620 | \$ 132,297,620   | \$  | \$ b  |
| Common<br>Stock<br>Real Estate<br>Industrials   | 89,306,094     | 80,834,673   |   | 8,471,421 <sup>c,d</sup>  |
| Common<br>Stock<br>Real Estate<br>Other<br>Industries                                   | 1,099,121,249  | 1,099,121,249  |   |   |
| Preferred<br>Securities<br>\$25 Par<br>Value<br>Real Estate<br>Residential<br>Apartment | 4,999,920      |  | 4,999,920   |   |
| Preferred<br>Securities<br>\$25 Par<br>Value<br>Other<br>Industries                     | 180,338,412    | 180,338,412  |   |   |

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

|  | Total           | Quoted Prices<br>In Active<br>Markets for<br>Identical<br>Investments<br>(Level 1) | Other<br>Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) <sup>a</sup> |
|--|-----------------|--|---|---|
| Preferred Securities   |                 |  |   |   |
| Capital Securities   | \$ 86,465,851   | \$   | \$ 86,465,851   | \$  |
| Corporate Bonds  | 5,891,578       |  | 5,891,578   |   |
| Money Market Funds   | 4,000,000       |  | 4,000,000   |   |
| Total Investments <sup>e</sup>                                 | \$1,602,420,724 | \$1,492,591,954  | \$101,357,349   | \$ 8,471,421  |
| Written Call Options   | \$ (181,370)    | \$   | \$ (181,370)  | \$  |
| Total Depreciation In Other Financial Instruments <sup>e</sup> | \$ (181,370)    | \$   | \$ (181,370)  | \$  |

<sup>a</sup> Certain of the Fund's investments are categorized as Level 3 and were valued utilizing third party pricing information without adjustment. Such valuations are based on significant unobservable inputs. A change in the significant unobservable inputs could result in a significantly lower or higher value in such Level 3 investments.

<sup>b</sup> BGP Holdings PLC was acquired via a spinoff and has been fair valued, by the Valuation Committee, at zero pursuant to the Fund's fair value procedures and classified as a Level 3 security.

<sup>c</sup> Private placement in a public entity classified as a Level 3 is valued at a discount to quoted market prices to reflect a lock-up restriction ascribed to those shares.

<sup>d</sup> Fair valued, pursuant to the Fund's fair value procedures utilizing significant unobservable inputs and assumptions.

<sup>e</sup> Portfolio holdings are disclosed individually on the Schedule of Investments.

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

Following is a reconciliation of investments for which significant unobservable inputs (Level 3) were used in determining fair value:

|   | Total<br>Investments<br>in Securities | Common<br>Stock<br>Real<br>Estate<br>Industrials | Preferred<br>Securities<br>Capital<br>Securities<br>Banks | Preferred<br>Securities<br>Capital<br>Real<br>Estate<br>Diversified | Corporate<br>Bonds<br>Real<br>Estate<br>Shopping<br>Centers |
|---|---------------------------------------|--|---|---|---|
| Balance as of<br>December 31,<br>2012                     | \$ 21,576,472                         | \$   | \$ 7,490,625  | \$ 2,386,141  | \$ 11,699,706   |
| Purchases   | 6,532,249                             | 6,532,249  |   |   |   |
| Sales   | (7,289,089)                           |  |   | (2,227,501)   | (5,061,588)   |
| Amortization  | (1,542)                               |  |   | (1,542)   |   |
| Realized gain<br>(loss)                                   | (1,885,831)                           |  |   | (2,189,419)   | 303,588   |
| Change in<br>unrealized<br>appreciation<br>(depreciation) | 2,439,490                             | 1,939,172  | (481,875)   | 2,032,321   | (1,050,128)   |
| Transfers out<br>of Level 3 <sup>a</sup>                  | (12,900,328)                          |  | (7,008,750)   |   | (5,891,578)   |
| Balance as of<br>December 31,<br>2013                     | \$ 8,471,421                          | \$ 8,471,421                                     | \$  | \$  | \$  |

The change in unrealized appreciation/(depreciation) attributable to securities owned on December 31, 2013 which were valued using significant unobservable inputs (Level 3) amounted to \$1,939,172.

<sup>a</sup> As of December 31, 2012, the Fund used significant unobservable inputs in determining the value of certain investments. As of December 31, 2013, the Fund used significant observable inputs in determining the value of the same investments.

The following table summarizes the quantitative inputs and assumptions used for investments categorized in Level 3 of the fair value hierarchy.

|   | Fair Value at<br>December 31, 2013 | Valuation<br>Technique           | Unobservable<br>Inputs | Input<br>Values |
|---|------------------------------------|----------------------------------|------------------------|-----------------|
| Common Stock Real<br>Estate Industrials | \$ 8,471,421                       | Market Price<br>Less<br>Discount | Liquidity<br>Discount  | 7.5%            |

The significant unobservable inputs utilized in the fair value measurement of the Fund's Level 3 equity investment in Common Stock Real Estate Industrials are a discount to quoted market prices to reflect a lock-up restriction ascribed to those shares. Significant changes in these inputs may result in a materially higher or lower fair value measurement.

*Security Transactions and Investment Income:* Security transactions are recorded on trade date. Realized gains and losses on investments sold are recorded on the basis of identified cost. Interest income is recorded on the accrual basis. Discounts are accreted and premiums are amortized over the

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

NOTES TO FINANCIAL STATEMENTS (Continued)

life of the respective securities. Dividend income is recorded on the ex-dividend date, except for certain dividends on foreign securities, which are recorded as soon as the Fund is informed after the ex-dividend date. Distributions from Real Estate Investment Trusts (REITs) are recorded as ordinary income, net realized capital gain or return of capital based on information reported by the REITs and management's estimates of such amounts based on historical information. These estimates are adjusted when the actual source of distributions is disclosed by the REITs and actual amounts may differ from the estimated amounts.

Debt obligations may be placed on non-accrual status and related interest income may be reduced by ceasing current accruals and writing off interest receivable when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. A debt obligation is removed from non-accrual status when the issuer resumes interest payments or when collectability of interest is reasonably assured.

*Options:* The Fund writes covered call options on securities and may write put or call options on an index and put options on securities with the intention of earning option premiums. Option premiums may increase the Fund's realized gains and therefore may help increase distributable income. When the Fund writes (sells) an option, an amount equal to the premium received by the Fund is recorded on the Statement of Assets and Liabilities as a liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. When an option expires, the Fund realizes a gain on the option to the extent of the premium received. Premiums received from writing options which are exercised or closed are added to or offset against the proceeds or amount paid on the transaction to determine the realized gain or loss. If a put option on a security is exercised, the premium reduces the cost basis of the security purchased by the Fund. If a call option is exercised, the premium is added to the proceeds of the security sold to determine the realized gain or loss. The Fund, as writer of an option, bears the market risk of an unfavorable change in the price of the underlying index or security. Other risks include the possibility of an illiquid options market or the inability of the counterparties to fulfill their obligations under the contracts.

*Foreign Currency Translation:* The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollars based upon prevailing exchange rates on the respective dates of such transactions. The Fund does not isolate that portion of the results of operations resulting from fluctuations in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency exchange contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, other than investments in securities,



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

NOTES TO FINANCIAL STATEMENTS (Continued)

on the date of valuation, resulting from changes in exchange rates. Pursuant to U.S. federal income tax regulations, certain foreign currency gains/losses included in realized and unrealized gains/losses are included in or are a reduction of ordinary income for federal income tax purposes.

*Foreign Securities:* The Fund may directly purchase securities of foreign issuers. Investing in securities of foreign issuers involves special risks not typically associated with investing in securities of U.S. issuers. The risks include possible revaluation of currencies, the ability to repatriate funds, less complete financial information about companies and possible future adverse political and economic developments. Moreover, securities of many foreign issuers and their markets may be less liquid and their prices more volatile than securities of comparable U.S. issuers.

*Dividends and Distributions to Shareholders:* Dividends from net investment income and capital gain distributions are determined in accordance with U.S. federal income tax regulations, which may differ from GAAP. Dividends from net investment income, if any, are declared and paid quarterly. Net realized capital gains, unless offset by any available capital loss carryforward, are typically distributed to shareholders at least annually. Dividends and distributions to shareholders are recorded on the ex-dividend date and are automatically reinvested in full and fractional shares of the Fund in accordance with the Fund's Reinvestment Plan, unless the shareholder has elected to have them paid in cash.

On December 11, 2012, the Fund's Board of Directors announced that the Fund implemented a managed distribution policy in accordance with exemptive relief issued by the Securities and Exchange Commission. This policy gives the Fund greater flexibility to realize long-term capital gains throughout the year and to distribute those gains on a more regular basis to shareholders. Therefore, regular quarterly distributions throughout the year may include a portion of estimated realized long-term capital gains, along with net investment income, short-term capital gains and return of capital, which is not taxable. In accordance with the relief, the Fund is required to adhere to certain conditions in order to distribute long-term capital gains during the year. For the year ended December 31, 2013 the Fund paid distributions from both net investment income and net realized capital gains.

*Income Taxes:* It is the policy of the Fund to continue to qualify as a regulated investment company, if such qualification is in the best interest of the shareholders, by complying with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies, and by distributing substantially all of its taxable earnings to its shareholders. Accordingly, no provision for federal income or excise tax is necessary. Dividend and interest income from holdings in non-U.S. securities is recorded net of non-U.S. taxes paid. Management has analyzed the Fund's tax positions taken on federal income tax returns as well as its tax positions in non-U.S. jurisdictions in which it trades for all open tax years and has concluded that as of December 31, 2013, no additional provisions for income tax are required in the Fund's financial statements. The Fund's tax positions for the tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service, state departments of revenue and by foreign tax authorities.

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

## Note 2. Investment Management Fees, Administration Fees and Other Transactions with Affiliates

*Investment Management Fees:* The investment manager serves as the Fund's investment manager pursuant to an investment management agreement (the investment management agreement). Under the terms of the investment management agreement, the investment manager provides the Fund with day-to-day investment decisions and generally manages the Fund's investments in accordance with the stated policies of the Fund, subject to the supervision of the Board of Directors.

For the services provided to the Fund, the investment manager receives a fee, accrued daily and paid monthly, at the annual rate of 0.85% of the average daily managed assets of the Fund. Managed assets are equal to the net assets of the common shares plus the amount of borrowings used for leverage outstanding.

*Administration Fees:* The Fund has entered into an administration agreement with the investment manager under which the investment manager performs certain administrative functions for the Fund and receives a fee, accrued daily and paid monthly, at the annual rate of 0.02% of the average daily managed assets of the Fund. For the year ended December 31, 2013, the Fund incurred \$342,760 in fees under this administration agreement. Additionally, the Fund pays State Street Bank and Trust Company as co-administrator under a fund accounting and administration agreement.

*Directors' and Officers' Fees:* Certain directors and officers of the Fund are also directors, officers and/or employees of the investment manager. The Fund does not pay compensation to directors and officers affiliated with the investment manager except for the Chief Compliance Officer, who received compensation from the investment manager, which was reimbursed by the Fund, in the amount of \$20,827 for the year ended December 31, 2013.

## Note 3. Purchases and Sales of Securities

Purchases and sales of securities, excluding short-term investments, for the year ended December 31, 2013, totaled \$938,152,800 and \$947,051,193, respectively.

Transactions in written options during the year ended December 31, 2013, were as follows:

|   | Number<br>of Contracts | Premiums   |
|---|------------------------|------------|
| Options outstanding at December 31,<br>2012 |                        | \$         |
| Options written                             | 8,731                  | 231,686    |
| Options expired                             | (2,850)                | (113,772)  |
| Options outstanding at December 31,<br>2013 | 5,881                  | \$ 117,914 |



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

## NOTES TO FINANCIAL STATEMENTS (Continued)

## Note 4. Derivative Investments

The following tables present the value of derivatives held at December 31, 2013, and the effect of derivatives held during the year ended December 31, 2013, along with the respective location in the financial statements. The volume of activity for written options for the year ended December 31, 2013 is summarized in Note 3.

## Statement of Assets and Liabilities

| Derivatives      | Location | Assets |            | Liabilities         |            |
|------------------|----------|--------|------------|---------------------|------------|
|                  |          |        | Fair Value | Location            | Fair Value |
| Option contracts |          |        | \$         | Payable for Options | \$ 181,370 |

| Derivatives      | Location                         | Realized Gain | Change in Unrealized Depreciation |
|------------------|----------------------------------|---------------|-----------------------------------|
|                  |                                  |               |                                   |
| Option contracts | Net Realized and Unrealized Gain | \$ 113,772    | \$ (63,456)                       |

At December 31, 2013, the Fund's derivative assets and liabilities (by type), which are subject to a master netting agreement, are as follows:

| Derivative Financial Instruments | Assets | Liabilities |
|----------------------------------|--------|-------------|
| Written call options             | \$     | \$ 181,370  |

The following table presents the Fund's derivative liabilities by counterparty net of amounts available for offset under a master netting agreement and net of the related collateral pledged by the Fund, if any, as of December 31, 2013:

| Counterparty                           | Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities | Financial Instruments and Derivatives Available for Offset | Collateral Pledged <sup>a</sup> | Net Amount of Derivative Liabilities <sup>b</sup> |
|--|---|--|---------------------------------|---|
| Morgan Stanley & Co. International PLC | \$ 181,370  | \$   | \$                              | \$ 181,370  |

<sup>a</sup> In some instances, the actual collateral pledged may be more than amount shown.

<sup>b</sup> Net amount represents the net payable due to the counterparty in the event of default.

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

## Note 5. Income Tax Information

The tax character of dividends and distributions paid was as follows:

|                                   | For the Year Ended<br>December 31, |              |
|-----------------------------------|------------------------------------|--------------|
|                                   | 2013                               | 2012         |
| Ordinary income                   | \$28,897,926                       | \$23,026,059 |
| Long-term capital gain            | 50,356,877                         | 56,191,035   |
| Total dividends and distributions | \$79,254,803                       | \$79,217,094 |

As of December 31, 2013, the tax-basis components of accumulated earnings and the federal tax cost were as follows:

|                                       |                 |
|---------------------------------------|-----------------|
| Cost for federal income tax purposes  | \$1,303,400,570 |
| Gross unrealized appreciation         | \$ 320,308,746  |
| Gross unrealized depreciation         | (21,288,592)    |
| Net unrealized appreciation           | \$ 299,020,154  |
| Undistributed long-term capital gains | \$ 6,106,773    |

As of December 31, 2013, the Fund had a net short-term capital loss carryforward of \$87,894,129, of which \$48,999,556 will expire on December 31, 2016 and \$38,894,573 will expire on December 31, 2017. Federal tax rules limit the Fund's use of these capital loss carryforwards as a result of the Fund's mergers with Cohen & Steers Premium Income Realty Fund, Inc., Cohen & Steers Advantage Income Realty Fund, Inc. and Cohen & Steers Worldwide Realty Income Fund, Inc. It is possible that all or a portion of these losses will not be able to be utilized prior to their expiration.

During the year ended December 31, 2013, the Fund utilized net capital loss carryforwards of \$28,069,263.

As of December 31, 2013, the Fund had temporary book/tax differences primarily attributable to wash sales on portfolio securities and permanent book/tax differences primarily attributable to foreign currency transactions, sales of passive foreign investment companies, prior year REIT adjustments and certain fixed income securities. To reflect reclassifications arising from the permanent differences, paid-in capital was credited \$178,654, accumulated net realized loss was charged \$713,903 and accumulated undistributed net investment income was credited \$535,249. Net assets were not affected by this reclassification.

## Note 6. Capital Stock

The Fund is authorized to issue 300 million shares of common stock at a par value of \$0.001 per share.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

During the year ended December 31, 2013, the Fund issued 93,513 shares of common stock for the reinvestment of dividends in an amount of \$1,054,835. During the year ended December 31, 2012, the Fund issued 100,093 shares of common stock for the reinvestment of dividends.

On December 10, 2013, the Board of Directors approved the continuation of the delegation of its authority to management to effect repurchases, pursuant to management's discretion and subject to market conditions and investment considerations, of up to 10% of the Fund's common shares outstanding (Share Repurchase Program) from January 1, 2014 through the fiscal year ended December 31, 2014. During the year ended December 31, 2013, the Fund repurchased 546,003 Treasury shares of its common stock at an average price of \$9.36 per share (including brokerage commissions) at a weighted average discount of 11.4%. These repurchases, which had a total cost of \$5,111,444, resulted in an increase of \$0.01 to the Fund's net asset value per share. During the year ended December 31, 2012, the Fund did not effect any repurchases.

Note 7. Borrowings

Effective December 24, 2012, the Fund entered into an amended and restated credit agreement (the credit agreement) with BNP Paribas Prime Brokerage International, Ltd. (BNPP) in which the Fund began paying a monthly financing charge based on a combination of LIBOR-based variable and fixed rates. The commitment amount of the credit agreement is \$460,000,000. The Fund also pays a fee of 0.55% per annum on the unused portion of the credit agreement. BNPP may not change certain terms of the credit agreement except upon 360 days' notice; however, if the Fund exceeds certain net asset value triggers, BNPP may make such changes upon 60 days' notice to the Fund. Also, if the Fund violates certain other conditions, the credit agreement may be terminated. The Fund is required to pledge portfolio securities as collateral in an amount up to two times the loan balance outstanding (or more depending on the terms of the credit agreement) and has granted a security interest in the securities pledged to, and in favor of, BNPP as security for the loan balance outstanding. If the Fund fails to meet certain requirements, or maintain other financial covenants required under the credit agreement, the Fund may be required to repay immediately, in part or in full, the loan balance outstanding under the credit agreement, necessitating the sale of portfolio securities at potentially inopportune times. The credit agreement also permits, subject to certain conditions, BNPP to rehypothecate portfolio securities pledged by the Fund up to the amount of the loan balance outstanding. The Fund continues to receive dividends and interest on rehypothecated securities. The Fund also has the right under the credit agreement to recall the rehypothecated securities from BNPP on demand. If BNPP fails to deliver the recalled security in a timely manner, the Fund will be compensated by BNPP for any fees or losses related to the failed delivery or, in the event a recalled security will not be returned by BNPP, the Fund, upon notice to BNPP, may reduce the loan balance outstanding by the amount of the recalled security failed to be returned. The Fund will receive a portion of the fees earned by BNPP in connection with the rehypothecation of portfolio securities.

As of December 31, 2013, the Fund had outstanding borrowings of \$460,000,000. During the year ended December 31, 2013, the Fund borrowed an average daily balance of \$460,000,000 at a weighted

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

NOTES TO FINANCIAL STATEMENTS (Continued)

average borrowing cost of 1.85%. As of December 31, 2013, the aggregate value of rehypothecated securities, which are reflected as part of investments in securities on the Statement of Assets and Liabilities, was \$391,265,800. The value of the outstanding borrowings under the credit agreement exceed the value of the rehypothecated securities at December 31, 2013. During the year ended December 31, 2013, the Fund earned \$89,077 in fees from rehypothecated securities.

Note 8. Other

In the normal course of business, the Fund enters into contracts that provide general indemnifications. The Fund's maximum exposure under these arrangements is dependent on claims that may be made against the Fund in the future and, therefore, cannot be estimated; however, based on experience, the risk of material loss from such claims is considered remote.

Note 9. Subsequent Events

Management has evaluated events and transactions occurring after December 31, 2013 through the date that the financial statements were issued, and has determined that no additional disclosure in the financial statements is required.



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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets and of cash flows and the financial highlights present fairly, in all material respects, the financial position of Cohen & Steers Quality Income Realty Fund, Inc. (the "Fund") at December 31, 2013, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2013 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
New York, New York  
February 26, 2014

**COHEN & STEERS QUALITY INCOME REALTY FUND, INC.****AVERAGE ANNUAL TOTAL RETURNS**

(periods ended December 31, 2013) (Unaudited)

| Based on Net Asset Value |            |           |                            | Based on Market Value |            |           |                            |
|--------------------------|------------|-----------|----------------------------|-----------------------|------------|-----------|----------------------------|
| One Year                 | Five Years | Ten Years | Since Inception (02/28/02) | One Year              | Five Years | Ten Years | Since Inception (02/28/02) |
| 3.31%                    | 23.78%     | 5.70%     | 8.35%                      | -0.13%                | 29.89%     | 4.93%     | 7.11%                      |

*The performance data quoted represent past performance. Past performance is no guarantee of future results. The investment return will vary and the principal value of an investment will fluctuate and shares, if sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Performance results reflect the effect of leverage from utilization of borrowings under a credit agreement and/or from the issuance of preferred shares. Current total returns of the Fund can be obtained by visiting our website at [cohenandsteers.com](http://cohenandsteers.com). During certain periods presented above, the investment manager waived fees and/or reimbursed expenses. Without this arrangement, performance would have been lower. The Fund's returns assume the reinvestment of all dividends and distributions at prices obtained under the Fund's dividend reinvestment plan.*

**TAX INFORMATION 2013 (Unaudited)**

Pursuant to the Jobs and Growth Relief Reconciliation Act of 2003, the Fund designates qualified dividend income of \$7,525,580. Additionally, 11.03% of the ordinary dividends qualified for the dividends received deduction available to corporations. Also, the Fund designates a long-term capital gain distribution of \$50,356,877 at the 20% maximum rate.

**REINVESTMENT PLAN**

The Fund has a dividend reinvestment plan commonly referred to as an "opt-out" plan (the Plan). Each common shareholder who participates in the Plan will have all distributions of dividends and capital gains (Dividends) automatically reinvested in additional common shares by Computershare as agent (the Plan Agent). Shareholders who elect not to participate in the Plan will receive all Dividends in cash paid by check mailed directly to the shareholder of record (or if the shares are held in street or other nominee name, then to the nominee) by the Plan Agent, as dividend disbursing agent. Shareholders whose common shares are held in the name of a broker or nominee should contact the broker or nominee to determine whether and how they may participate in the Plan.

The Plan Agent serves as agent for the shareholders in administering the Plan. After the Fund declares a Dividend, the Plan Agent will, as agent for the shareholders, either: (i) receive the cash payment and use it to buy common shares in the open market, on the NYSE or elsewhere, for the participants' accounts or (ii) distribute newly issued common shares of the Fund on behalf of the participants.

The Plan Agent will receive cash from the Fund with which to buy common shares in the open market if, on the Dividend payment date, the net asset value (NAV) per share exceeds the market price per share plus estimated brokerage commissions on that date. The Plan Agent will receive the Dividend in newly issued common shares of the Fund if, on the Dividend payment date, the market price per share plus estimated brokerage commissions equals or exceeds the NAV per share of the Fund on that





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

date. The number of shares to be issued will be computed at a per share rate equal to the greater of (i) the NAV or (ii) 95% of the closing market price per share on the payment date.

If the market price per share is less than the NAV on a Dividend payment date, the Plan Agent will have until the last business day before the next ex-dividend date for the common stock, but in no event more than 30 days after the Dividend payment date (as the case may be, the Purchase Period), to invest the Dividend amount in shares acquired in open market purchases. If at the close of business on any day during the Purchase Period on which NAV is calculated the NAV equals or is less than the market price per share plus estimated brokerage commissions, the Plan Agent will cease making open market purchases and the uninvested portion of such Dividends shall be filled through the issuance of new shares of common stock from the Fund at the price set forth in the immediately preceding paragraph.

Participants in the Plan may withdraw from the Plan upon notice to the Plan Agent. Such withdrawal will be effective immediately if received not less than ten days prior to a Dividend record date; otherwise, it will be effective for all subsequent Dividends. If any participant elects to have the Plan Agent sell all or part of his or her shares and remit the proceeds, the Plan Agent is authorized to deduct a \$15.00 fee plus \$0.10 per share brokerage commissions.

The Plan Agent's fees for the handling of reinvestment of Dividends will be paid by the Fund. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of Dividends. The automatic reinvestment of Dividends will not relieve participants of any income tax that may be payable or required to be withheld on such Dividends.

The Fund reserves the right to amend or terminate the Plan. All correspondence concerning the Plan should be directed to the Plan Agent at 800-432-8224.

**OTHER INFORMATION**

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 800-330-7348, (ii) on our website at [cohenandsteers.com](http://cohenandsteers.com) or (iii) on the Securities and Exchange Commission's (the SEC) website at <http://www.sec.gov>. In addition, the Fund's proxy voting record for the most recent 12-month period ended June 30 is available by August 31 of each year (i) without charge, upon request, by calling 800-330-7348 or (ii) on the SEC's website at <http://www.sec.gov>.

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

Please note that distributions paid by the Fund to shareholders are subject to recharacterization for tax purposes and are taxable up to the amount of the Fund's investment company taxable income and net realized gains. Distributions in excess of the Fund's net investment company taxable income and realized gains are a return of capital distributed from the Fund's assets. To the extent this occurs,



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

the Fund's shareholders of record will be notified of the estimated amount of capital returned to shareholders for each such distribution and this information will also be available at [cohenandsteers.com](http://cohenandsteers.com). The final tax treatment of all distributions is reported to shareholders on their 1099-DIV forms, which are mailed after the close of each calendar year. 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.

Notice is hereby given in accordance with Rule 23c-1 under the 1940 Act that the Fund may purchase, from time to time, shares of its common stock in the open market.



**COHEN & STEERS QUALITY INCOME REALTY FUND, INC.****MANAGEMENT OF THE FUND**

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

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

| Name,<br>Address <sup>1</sup><br>and<br>Age    | Position(s)<br>Held<br>With<br>Fund | Term of<br>Office <sup>2</sup>               | Principal Occupation<br>During At Least<br>The Past 5 Years<br>(Including Other<br>Directorships Held)   | Number of<br>Funds<br>Within<br>Fund<br>Complex<br>Overseen<br>by<br>Director<br>(Including<br>the Fund) | Length<br>of<br>Time<br>Served <sup>3</sup> |
|--|-------------------------------------|--|--|--|---|
| <i>Interested Directors<sup>4</sup></i>        |                                     |  |  |  |   |
| Robert<br>H.<br>Steers <sup>5</sup><br>Age: 60 | Director<br>and<br>Co-Chairman      | Until<br>next<br>election<br>of<br>directors | Co-Chairman and Co-Chief Executive Officer of Cohen & Steers Capital Management, Inc. (CSCM or the Investment Manager) since 2003 and its parent, Cohen & Steers, Inc. (CNS) since 2004. Prior to that, Chairman of the Advisor; Vice President of Cohen & Steers Securities, LLC. | 22   | 1991<br>to<br>present                       |
| Martin<br>Cohen <sup>5,6</sup><br>Age: 65      | Director<br>and<br>Co-Chairman      | Until<br>next<br>election<br>of<br>directors | Co-Chairman and Co-Chief Executive Officer of CSCM since 2003 and CNS since 2004. Prior to that, President of the Advisor; Vice President of Cohen & Steers Securities, LLC.   | 22   | 1991<br>to<br>present                       |
| <i>Disinterested Directors</i>                 |                                     |  |  |  |   |
| Michael<br>G.<br>Clark<br>Age: 48              | Director                            | Until<br>next<br>election<br>of<br>directors | From May 2006 to June 2011, President and Chief Executive Officer of DWS Funds and Managing Director of Deutsche Asset Management.   | 22   | 2011<br>to<br>present                       |

*(table continued on next page)*

**COHEN & STEERS QUALITY INCOME REALTY FUND, INC.***(table continued from previous page)*

| Name,<br>Address <sup>1</sup><br>and Age | Position(s)<br>Held<br>With<br>Fund | Term of<br>Office <sup>2</sup>         | Principal Occupation<br>During At Least<br>The Past 5 Years<br>(Including Other<br>Directorships Held)  | Number of<br>Funds<br>Within<br>Fund<br>Complex<br>Overseen<br>by<br>Director<br>(Including<br>the Fund) | Length<br>of<br>Time<br>Served <sup>3</sup> |
|--|-------------------------------------|--|---|--|---|
| Bonnie<br>Cohen <sup>6</sup><br>Age: 71  | Director                            | Until next<br>election of<br>directors | Consultant. Board Member DC Public Library Foundation since 2012, President since 2014; Board Member, United States Department of Defense Business Board, 2010-2014; Board Member, Teluride Mountain Film Festival since 2010; Advisory Board Member, Posse Foundation, 2004-2013; Trustee, H. Rubenstein Foundation since 1996; Trustee, District of Columbia Public Libraries since 2004. | 22   | 2001<br>to<br>present                       |
| George<br>Grossman<br>Age: 60            | Director                            | Until next<br>election of<br>directors | Attorney-at-law   | 22   | 1993<br>to<br>present                       |
| Richard<br>E. Kroon<br>Age: 71           | Director                            | Until next<br>election of<br>directors | Member of Investment Committee, Monmouth University since 2004; Former Director, Retired Chairman and Managing Partner of Sprout Group venture capital funds, then an affiliate of Donaldson, Lufkin and Jenrette Securities Corporation from 1981 to 2001. Former chairman of the National Venture Capital Association for the year 2000.  | 22   | 2004<br>to<br>present                       |

*(table continued on next page)*

**COHEN & STEERS QUALITY INCOME REALTY FUND, INC.***(table continued from previous page)*

| Name,<br>Address <sup>1</sup><br>and Age | Position(s)<br>Held<br>With<br>Fund | Term of<br>Office <sup>2</sup>         | Principal Occupation<br>During At Least<br>The Past 5 Years<br>(Including Other<br>Directorships Held)  | Number of<br>Funds<br>Within<br>Fund<br>Complex<br>Overseen<br>by<br>Director<br>(Including<br>the Fund) | Length<br>of<br>Time<br>Served <sup>3</sup> |
|--|-------------------------------------|--|---|--|---|
| Richard<br>J.<br>Norman<br>Age: 70       | Director                            | Until next<br>election of<br>directors | Private Investor. Member, District of Columbia<br>Department of Corrections Chaplains Corps from 2008 to<br>February 2010; Member, Montgomery County, Maryland<br>Department of Corrections Volunteer Corps since<br>February 2010; Liason for Business Leadership,<br>Salvation Army World Service Organization (SAWSO)<br>since 2010; Advisory Board Member, The Salvation<br>Army since 1985; Financial Education Fund Chair, The<br>Foundation Board of Maryland Public Television since<br>2009; Former President, Executive Committee, Chair of<br>Investment Committee, The Foundation Board of<br>Maryland Public Television from 1997 to 2008. Prior<br>thereto, Investment Representative of Morgan Stanley<br>Dean Witter from 1966 to 2000. | 22   | 2001<br>to<br>present                       |
| Frank K.<br>Ross<br>Age: 70              | Director                            | Until next<br>election of<br>directors | Visiting Professor of Accounting, Howard University<br>School of Business since 2004; Board member and Audit<br>Committee Chair and Human Resources and<br>Compensation Committee Member, Pepco Holdings, Inc.<br>(electric utility) since 2004; Former Board member of<br>NCRIC Inc. from 2004 to 2005 and formerly, Midatlantic<br>Area Managing Partner for Assurance Services at KPMG<br>LLP and Managing Partner of its Washington, DC offices<br>from 1977 to 2003.   | 22   | 2004<br>to<br>present                       |

*(table continued on next page)*

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

(table continued from previous page)

| Name,<br>Address <sup>1</sup><br>and Age | Position(s)<br>Held<br>With<br>Fund | Term of<br>Office <sup>2</sup>         | Principal Occupation<br>During At Least<br>The Past 5 Years<br>(Including Other<br>Directorships Held)   | Number of<br>Funds<br>Within<br>Fund<br>Complex<br>Overseen<br>by<br>Director<br>(Including<br>the Fund) | Length<br>of<br>Time<br>Served <sup>3</sup><br>to<br>present |
|--|-------------------------------------|--|--|--|--|
| C.<br>Edward<br>Ward Jr.<br>Age: 67      | Director                            | Until next<br>election of<br>directors | Member of The Board of Trustees of Manhattan College,<br>Riverdale, New York since 2004. Formerly Director of<br>closed-end fund management for the New York Stock<br>Exchange, where he worked from 1979 to 2004. | 22   | 2004<br>to<br>present  |

<sup>1</sup> The address for each director is 280 Park Avenue, New York, NY 10017.

<sup>2</sup> On March 12, 2008, the Board of Directors adopted a mandatory retirement policy stating a Director must retire from the Board on December 31st of the year in which he or she turns 75 years of age.

<sup>3</sup> The length of time served represents the year in which the director was first elected or appointed to any fund in the Cohen & Steers fund complex.

<sup>4</sup> "Interested person", as defined in the 1940 Act, of the Fund because of affiliation with CSCM (Interested Directors).

<sup>5</sup> Effective January 1, 2014, Martin Cohen, currently co-Chairman and co-CEO, became Executive Chairman of the Advisor. Robert Steers, currently co-Chairman and co-CEO, became the sole CEO, responsible for day-to-day leadership and management of the Advisor.

<sup>6</sup> Martin Cohen and Bonnie Cohen are not related.



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

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

| Name,<br>Address<br>and Age <sup>1</sup> | Position(s)<br>Held<br>With Fund            | Principal Occupation During At Least the Past 5 Years  | Length<br>of<br>Time<br>Served <sup>2</sup> |
|--|---|--|---|
| Adam M.<br>Derechin<br>Age: 49           | President and<br>Chief Executive<br>Officer | Chief Operating Officer of CSCM (since 2003) and CNS (since 2004). Prior to that, Senior Vice President of CSCM and Vice President and Assistant Treasurer of the Cohen & Steers funds.  | Since<br>2005                               |
| Joseph M.<br>Harvey<br>Age: 50           | Vice President                              | President and Chief Investment Officer of CSCM (since 2003) and President of CNS (since 2004). Prior to that, Senior Vice President and Director of Investment Research of CSCM.   | Since<br>2004                               |
| William F.<br>Scapell<br>Age: 46         | Vice President                              | Senior Vice President of CSCM since 2003. Prior to that, chief strategist for preferred securities at Merrill Lynch & Co., Inc.  | Since<br>2003                               |
| Thomas N.<br>Bohjalian<br>Age: 48        | Vice President                              | Executive Vice President of CSCM (since 2012). Prior to that, Senior Vice President of CSCM.   | Since<br>2006                               |
| Yigal D.<br>Jhirad<br>Age: 49            | Vice President                              | Senior Vice President of CSCM since 2007. Prior to that, executive director at Morgan Stanley and head of the portfolio and derivatives strategies group.  | Since<br>2007                               |
| Francis C.<br>Poli<br>Age: 51            | Secretary                                   | Executive Vice President, Secretary and General Counsel of CSCM and CNS since March 2007. Prior thereto, General Counsel of Allianz Global Investors of America LP.  | Since<br>2007                               |
| James<br>Giallanza<br>Age: 47            | Treasurer and<br>Chief Financial<br>Officer | Senior Vice President of CSCM since September 2006.  | Since<br>2006                               |
| Lisa D.<br>Phelan<br>Age: 45             | Chief<br>Compliance<br>Officer              | Senior Vice President of CSCM since 2008. Chief Compliance Officer of CSCM, the Cohen & Steers funds, Cohen & Steers Asia Limited and CSSL since 2007, 2006, 2005 and 2004, respectively. Vice President of CSCM from 2006-2008. | Since<br>2006                               |

*(table continued on next page)*

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

*(table continued from previous page)*

| Name,<br>Address<br>and Age <sup>1</sup> | Position(s)<br>Held<br>With Fund | Principal Occupation During At Least the Past 5 Years  | Length<br>of<br>Time<br>Served <sup>2</sup> |
|--|----------------------------------|--|---|
| Tina M.<br>Payne<br>Age: 39              | Assistant<br>Secretary           | Senior Vice President and Associate General Counsel of CSCM since 2010 and prior to that Vice President and Associate General Counsel since July 2007. Prior thereto, Vice President and Counsel at PFPC Inc, (financial services company) from 2003 to 2007. Associate at Stradley, Ronon, Stevens & Young, LLP (law firm) from 2001 to 2003. | Since<br>2007                               |
| Neil Bloom<br>Age: 43                    | Assistant<br>Treasurer           | Vice President of CSCM since August 2008. Prior thereto, Senior Tax Manager at KPMG, LLP (accounting firm) since 2004.   | Since<br>2009                               |

<sup>1</sup> The address of each officer is 280 Park Avenue, New York, NY 10017.

<sup>2</sup> Officers serve one-year terms. The length of time served represents the year in which the officer was first elected to that position in any fund in the Cohen & Steers fund complex. All of the officers listed above are officers of one or more of the other funds in the complex.



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

Cohen & Steers Privacy Policy

|               |   |
|---------------|---|
| Facts<br>Why? | <p><b>What Does Cohen &amp; Steers Do With Your Personal Information?</b><br/>                 Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.</p> |
| What?         | <p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <ul style="list-style-type: none"> <li>• Social Security number and account balances</li> <li>• Transaction history and account transactions</li> <li>• Purchase history and wire transfer instructions</li> </ul>   |
| How?          | <p>All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Cohen &amp; Steers chooses to share; and whether you can limit this sharing.</p>  |

|   | Does Cohen<br>& Steers<br>share? | Can you<br>limit this<br>sharing? |
|---|----------------------------------|-----------------------------------|
| Reasons we can share your personal information  |                                  |                                   |
| For our everyday business purposes such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or reports to credit bureaus | Yes                              |                                   |