

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

Item 1. Reports to Stockholders.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

To Our Shareholders:

We would like to share with you our report for the year ended December 31, 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 December 31, 2013	Year Ended December 31, 2013
Cohen & Steers Quality Income Realty Fund at NAV ^a	3.16%	3.31%
Cohen & Steers Quality Income Realty Fund at Market Value ^a	12.43%	0.13%
FTSE NAREIT Equity REIT Index ^b	3.78%	2.47%
Blended Benchmark 80% FTSE NAREIT Equity REIT Index/20% BofA Merrill Lynch REIT Preferred Securities Index ^b	4.95%	0.37%
S&P 500 Index ^b	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. The Fund's returns assume the reinvestment of all dividends and distributions at prices obtained under the Fund's dividend reinvestment plan. Index performance does not reflect the deduction of any fees, taxes or expenses. An investor cannot invest directly in an index. Performance figures for periods shorter than one year are not annualized.

Managed Distribution Policy

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

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

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

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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.

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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^c), 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.

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

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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

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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.

Visit Cohen & Steers online at cohenandsteers.com

For more information about any of our funds, visit 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^{a,b}

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.

^a Data as of December 31, 2013. Information is subject to change.

^b See Note 7 in Notes to Financial Statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

December 31, 2013

Top Ten Holdings^a
(Unaudited)

Security	Value	% of Managed 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

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

Sector Breakdown

(Based on Managed Assets)
(Unaudited)

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS

December 31, 2013

		Number of Shares	Value
COMMON STOCK REAL ESTATE	114.4%		
DIVERSIFIED	11.5%		
American Assets Trust ^{a,b}		387,981	\$ 12,194,243
BGP Holdings PLC (Australia) (EUR) ^{c,d,e}		3,927,678	0
Cousins Properties ^a		1,547,066	15,934,780
Duke Realty Corp. ^{a,b}		1,387,700	20,871,008
Forest City Enterprises, Class A ^{a,b,e}		396,494	7,573,035
Vornado Realty Trust ^{a,b}		701,930	62,324,364
WP Carey ^{a,b}		218,422	13,400,190
			132,297,620
HEALTH CARE	11.2%		
Aviv REIT ^a		349,604	8,285,615
Emeritus Corp. ^{a,e}		172,103	3,722,588
HCP ^b		1,891,616	68,703,493
Healthcare Trust of America, Class A ^{a,b}		675,068	6,642,669
Ventas ^{a,b}		733,638	42,022,785
			129,377,150
HOTEL	8.8%		
Hersha Hospitality Trust ^a		2,730,028	15,206,256
Hilton Worldwide Holdings ^e		332,170	7,390,782
Host Hotels & Resorts ^{a,b}		1,303,783	25,345,542
Hyatt Hotels Corp., Class A ^{a,b,e}		179,580	8,882,027
Pebblebrook Hotel Trust ^a		532,300	16,373,548
Strategic Hotels & Resorts ^{a,e}		1,685,235	15,925,471
Sunstone Hotel Investors		910,041	12,194,549
			101,318,175
INDUSTRIALS	7.7%		
First Industrial Realty Trust ^a		392,600	6,850,870
Gramercy Property Trust (Restricted) ^{c,d,e,f,g}		1,589,355	8,471,421
Prologis ^{a,b}		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 of Shares	Value
OFFICE	16.4%		
American Realty Capital Properties ^{a,b}		1,300,459	\$ 16,723,903
Boston Properties ^{a,b}		534,744	53,672,255
Corporate Office Properties Trust ^a		695,028	16,465,213
Douglas Emmett ^a		828,297	19,291,037
Empire State Realty Trust, Class A ^a		890,474	13,624,252
Hudson Pacific Properties ^a		714,335	15,622,507
Parkway Properties		551,648	10,641,290
SL Green Realty Corp. ^{a,b}		467,144	43,154,763
			189,195,220
OFFICE/INDUSTRIAL	1.5%		
PS Business Parks ^a		232,667	17,780,412
RESIDENTIAL APARTMENT	16.8%		
Apartment Investment & Management Co. ^{a,b}		591,704	15,331,051
AvalonBay Communities ^a		136,572	16,146,907
Education Realty Trust ^a		1,369,640	12,080,225
Equity Residential ^{a,b}		1,265,002	65,615,654
Essex Property Trust ^a		164,552	23,614,857
Mid-America Apartment Communities ^a		480,557	29,189,032
UDR ^{a,b}		1,378,757	32,193,976
			194,171,702
SELF STORAGE	6.5%		
CubeSmart ^{a,b}		838,238	13,361,514
Public Storage ^{a,b}		295,121	44,421,613
Sovran Self Storage		263,791	17,191,259
			74,974,386
SHOPPING CENTERS	31.9%		
COMMUNITY CENTER	8.8%		
DDR Corp. ^{a,b}		1,364,341	20,969,921
Kimco Realty Corp. ^{a,b}		804,403	15,886,959
Ramco-Gershenson Properties Trust		926,603	14,584,731
Regency Centers Corp. ^{a,b}		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 of Shares	Value
FREE STANDING	1.3%		
Realty Income Corp.		398,296	\$ 14,868,390
REGIONAL MALL	21.8%		
General Growth Properties ^{a,b}		1,749,788	35,118,245
Glimcher Realty Trust ^a		1,900,405	17,787,791
Macerich Co. (The)		570,512	33,597,452
Simon Property Group ^{a,b}		979,844	149,093,063
Taubman Centers		245,157	15,670,435
			251,266,986
TOTAL SHOPPING CENTERS			368,255,543
SPECIALTY	2.1%		
Digital Realty Trust ^{a,b}		489,590	24,048,661
TOTAL COMMON STOCK (Identified cost \$1,021,775,613)			1,320,724,963
PREFERRED SECURITIES \$25 PAR VALUE	16.1%		
BANKS	0.9%		
Ally Financial, 7.25%, due 2/7/33 ^a		256,975	6,516,886
Huntington Bancshares, 8.50%, Series A (\$1,000 Par Value)(Convertible)		3,000	3,795,000
			10,311,886
INSURANCE	0.9%		
MULTI-LINE	0.2%		
Hartford Financial Services Group, 7.875%, due 4/15/42		70,000	2,006,200
MULTI-LINE FOREIGN	0.7%		
ING Groep N.V., 7.05% (Netherlands) ^{a,b}		205,000	5,163,950
ING Groep N.V., 7.375% (Netherlands)		139,904	3,553,562
			8,717,512
TOTAL INSURANCE			10,723,712

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

		Number of Shares	Value
REAL ESTATE	14.3%		
DIVERSIFIED	4.1%		
Colony Financial, 8.50%, Series A ^a		315,000	\$ 7,875,000
Cousins Properties, 7.50%, Series B ^a		307,775	7,740,542
DuPont Fabros Technology, 7.875%, Series A ^a		200,000	4,788,000
DuPont Fabros Technology, 7.625%, Series B ^a		230,000	5,237,100
EPR Properties, 9.00%, Series E (Convertible) ^a		191,000	5,302,160
Lexington Realty Trust, 6.50%, Series C (\$50 Par Value) ^a		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 ^c		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
HOTEL	3.3%		
Ashford Hospitality Trust, 9.00%, Series E ^a		405,000	10,736,550
Chesapeake Lodging Trust, 7.75%, Series A ^a		200,000	4,918,000
Hersha Hospitality Trust, 8.00%, Series B ^a		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 ^a		220,000	5,493,400
Pebblebrook Hotel Trust, 6.50%, Series C		160,000	3,257,600
Sunstone Hotel Investors, 8.00%, Series D ^a		180,000	4,500,000

		38,437,384
INDUSTRIALS	0.9%	
First Potomac Realty Trust, 7.75%, Series A ^a	130,000	3,139,500
Monmouth Real Estate Investment Corp., 7.63%, Series A ^c	200,000	5,020,000
Monmouth Real Estate Investment Corp., 7.875%, Series B ^c	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 of Shares	Value
OFFICE	0.9%		
CommonWealth REIT, 6.50%, Series D (Convertible) ^a		173,800	\$ 3,564,638
Corporate Office Properties Trust, 7.375%, Series L ^a		160,000	3,766,400
Hudson Pacific Properties, 8.375%, Series B		90,000	2,380,950
			9,711,988
RESIDENTIAL	1.4%		
APARTMENT	0.4%		
Alexandria Real Estate Equities, 7.00%, Series D ^a		199,200	4,999,920
MANUFACTURED HOME	1.0%		
Campus Crest Communities, 8.00%, Series A ^a		337,126	8,327,012
Equity Lifestyle Properties, 6.75%, Series C		115,994	2,664,962
			10,991,974
TOTAL RESIDENTIAL			15,991,894
SHOPPING CENTERS	3.7%		
COMMUNITY CENTER	1.9%		
Cedar Realty Trust, 7.25%, Series B ^a		160,000	3,680,000
DDR Corp., 7.375%, Series H		76,284	1,907,100
DDR Corp., 6.50%, Series J ^a		340,000	7,412,000
Kite Realty Group Trust, 8.25%, Series A		140,000	3,535,000
Regency Centers Corp., 6.625%, Series 6		200,000	4,340,000
Weingarten Realty Investors, 6.50%, Series F		53,571	1,212,312
			22,086,412
REGIONAL MALL	1.8%		
CBL & Associates Properties, 7.375%, Series D ^a		546,988	12,990,965
General Growth Properties, 6.375%, Series A		120,644	2,430,976
Pennsylvania REIT, 8.25%, Series A		159,000	4,017,930
Simon Property Group, 8.375%, Series J (\$50 Par Value) ^c		13,400	810,030

	20,249,901
TOTAL SHOPPING CENTERS	42,336,313
TOTAL REAL ESTATE	164,302,734
TOTAL PREFERRED SECURITIES \$25 PAR VALUE (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 of Shares	Value
PREFERRED			
SECURITIES CAPITAL			
SECURITIES	7.5%		
BANKS	0.6%		
Farm Credit Bank of Texas, 10.00%, Series I ^a		6,000	\$ 7,008,750
BANKS FOREIGN	4.7%		
Banco Bilbao Vizcaya Argentaria SA, 9.00% (Spain) ^d		6,400,000	6,920,000
Barclays PLC, 8.00% (United Kingdom) (EUR)		2,150,000	2,981,682
Barclays PLC, 8.25%, (United Kingdom) ^a		4,001,000	4,138,534
Commerzbank AG, 8.125%, due 9/19/23, 144A (Germany) ^h		5,400,000	5,980,500
Credit Agricole SA, 8.125%, due 9/19/33, 144A (France) ^{a,h}		4,500,000	4,978,125
Credit Suisse Group AG, 7.50%, 144A (Switzerland) ^h		3,291,000	3,481,220
Dresdner Funding Trust I, 8.151%, due 6/30/31, 144A (Germany) ^{a,h}		8,500,000	8,840,000
HBOS Capital Funding LP, 6.85% (United Kingdom)		7,200,000	7,133,990
KBC Bank NV, 8.00%, due 1/25/23 (Belgium)		4,600,000	5,060,000
Royal Bank of Scotland Group PLC, 7.648% (United Kingdom)		4,000,000	4,220,000
			53,734,051
INSURANCE	2.2%		
LIFE/HEALTH INSURANCE	0.3%		
Provident Financing Trust I, 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) ^h		3,250,000	3,323,125

PROPERTY CASUALTY	0.3%		
Liberty Mutual Group, 7.80%, due 3/15/37, 144A ^{a,h}		3,525,000	3,807,000
REINSURANCE FOREIGN	0.6%		
Catlin Insurance Co., 7.249%, 144A (Bermuda) ^{a,d,h}		6,640,000	6,938,800
TOTAL INSURANCE			25,723,050
TOTAL PREFERRED SECURITIES CAPITAL SECURITIES (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 Amount	Value
CORPORATE BOND REAL ESTATE SHOPPING CENTERS	0.5%		
General Shopping Finance Ltd., 10.00%, 144A (Cayman Islands) ^{c,h}		\$6,657,000	\$ 5,891,578
TOTAL CORPORATE BONDS (Identified cost \$6,657,000)			5,891,578
		Number of Shares	
SHORT-TERM INVESTMENTS	0.4%		
MONEY MARKET FUNDS			
State Street Institutional Treasury Money Market Fund, 0.06% ⁱ		4,000,000	4,000,000
TOTAL SHORT-TERM INVESTMENTS (Identified cost \$4,000,000)			4,000,000
TOTAL INVESTMENTS (Identified cost \$1,294,288,084)	138.9%		1,602,420,724
WRITTEN CALL OPTIONS	0.0		(181,370)
LIABILITIES IN EXCESS OF OTHER ASSETS	(38.9)		(448,180,717)
NET ASSETS (Equivalent to \$10.53 per share based on 109,646,321 shares of common stock outstanding)	100.0%		\$1,154,058,637
		Number of Contracts	
WRITTEN CALL OPTIONS	0.0%		
Gramercy Property Trust, USD Strike Price 5.73, 4/17/14		5,881	(181,370)
TOTAL WRITTEN CALL OPTIONS (Premiums 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.

^a 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.

^b 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.

^c Illiquid security. Aggregate holdings equal 2.1% of the net assets of the Fund.

^d 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.

^e Non-income producing security.

^f 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.

^g 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.

^h 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.

ⁱ 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
Total Assets	1,616,852,461

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
Total Liabilities	462,793,824
NET ASSETS	\$1,154,058,637

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
	\$1,154,058,637

NET ASSET VALUE PER COMMON SHARE:

(\$1,154,058,637 ÷ 109,646,321 shares outstanding)	\$ 10.53
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MARKET PRICE PER COMMON SHARE	\$ 9.48
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MARKET PRICE DISCOUNT TO NET ASSET VALUE PER COMMON SHARE	(9.97)%
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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 Year Ended December 31, 2013	For the Year Ended 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 appreciation (depreciation)	(72,893,934)	116,131,441
Net increase in net assets resulting from operations	36,545,889	236,887,807
Dividends and Distributions to Common Shareholders from:		
Net investment income	(28,897,926)	(23,026,059)
Net realized gain	(50,356,877)	(56,191,035)
Total dividends and distributions to common shareholders	(79,254,803)	(79,217,094)
Capital Stock Transactions:		
Increase (decrease) in net assets from Fund share transactions	(4,056,609)	1,080,006
Total increase (decrease) in net assets 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 ^a	\$ 1,154,058,637	\$ 1,200,824,160

^a 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 Operating Performance:	2013	2012	2011	2010	2009
Net asset value per common share, beginning of year	\$ 10.91	\$ 9.47	\$ 9.56	\$ 7.44	\$ 5.38
Income (loss) from investment operations:					
Net investment income	0.25 ^a	0.28 ^a	0.65	0.41	0.27
Net realized and unrealized gain (loss)	0.08 ^b	1.88	(0.02)	2.25	2.20
Total from investment operations	0.33	2.16	0.63	2.66	2.47
Less dividends and distributions to preferred shareholders from:					
Net investment income					(0.00) ^c
Total dividends and distributions to preferred shareholders					(0.00) ^c
Total from investment operations applicable to common shares	0.33	2.16	0.63	2.66	2.47
Less dividends and distributions to common shareholders from:					
Net investment 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 distributions to common shareholders	(0.72)	(0.72)	(0.72)	(0.55)	(0.41)
Anti-dilutive effect from the issuance	0.00 ^c	0.00 ^c			

of reinvested common shares					
Anti-dilutive effect from the repurchase of common shares	0.01			0.01	
Net increase (decrease) in net asset value per common share	(0.38)	1.44	(0.09)	2.12	2.06
Net asset value, per common share, end of year	\$ 10.53	\$ 10.91	\$ 9.47	\$ 9.56	\$ 7.44
Market value, per common share, end of year	\$ 9.48	\$ 10.16	\$ 8.47	\$ 8.65	\$ 6.07
Total net asset value return ^d	3.31%	23.32%	7.31%	37.80%	54.24% ^e
Total market value return ^d	-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% ^f
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% ^f
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% ^f
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% ^f
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% ^f
Ratio of expenses to average daily	1.46%	1.29%	1.33%	1.43%	2.04% ^f

managed assets (before expense reduction) ^g					
Ratio of expenses to average daily managed assets (net of expense reduction) ^g	1.46%	1.29%	1.31%	1.35%	1.90% ^f
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% ^h	294% ^h
Asset coverage per \$1,000 for revolving credit agreement	\$ 3,509	\$ 3,610	\$ 3,265	\$ 3,286	\$ 2,938

^a Calculation based on average shares outstanding.

^b 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%.

^c Amount is less than \$0.005.

^d 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.

^e 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.

^f Ratios do not reflect dividend payments to preferred shareholders, where applicable.

^g 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.

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

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

	Total	Quoted Prices In Active Markets for Identical Investments (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) ^a
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 ^e	\$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 ^e	\$ (181,370)	\$	\$ (181,370)	\$

^a 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.

^b 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.

^c 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.

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

^e 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 Investments in Securities	Common Stock Real Estate Industrials	Preferred Securities Capital Securities Banks	Preferred Securities Capital Real Estate Diversified	Corporate Bonds Real Estate Shopping Centers
Balance as of December 31, 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 (loss)	(1,885,831)			(2,189,419)	303,588
Change in unrealized appreciation (depreciation)	2,439,490	1,939,172	(481,875)	2,032,321	(1,050,128)
Transfers out of Level 3 ^a	(12,900,328)		(7,008,750)		(5,891,578)
Balance as of December 31, 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.

^a 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 December 31, 2013	Valuation Technique	Unobservable Inputs	Input Values
Common Stock Real Estate Industrials	\$ 8,471,421	Market Price Less Discount	Liquidity 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,

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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 regulat