COHEN & STEERS QUALITY INCOME REALTY FUND INC
Form N-CSR
March 11, 2019

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 10017

(Address of principal executive offices) (Zip code)

Dana A. DeVivo

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, 2018

**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, 2018. The total returns for Cohen & Steers Quality Income Realty Fund, Inc. (the Fund) and its comparative benchmarks were:

| | Six Months Ended December 31, 2018 | Year Ended December 31, 2018 |
|---|---|---|
| Cohen & Steers Quality Income Realty Fund at Net Asset Value[a] | 6.15% | 6.32% |
| Cohen & Steers Quality Income Realty Fund at Market Value[a] | 10.21% | 11.11% |
| FTSE Nareit Equity REITs Index[b] | 5.58% | 4.62% |
| Blended Benchmark 80% FTSE Nareit Equity REITs Index/20% ICE BofAML REIT Preferred Securities Index[b] | 5.83% | 4.96% |
| S&P 500 Index[b] | 6.85% | 4.38% |

*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

The Fund, acting in accordance with an exemptive order received from the U.S. Securities and Exchange Commission (SEC) and with approval of its Board of Directors (the Board), adopted a managed distribution policy under which the Fund intends to include long-term capital gains, where applicable, as part of the regular monthly cash distributions to its shareholders (the Plan). The Plan gives the Fund greater flexibility to realize long-term capital gains and to distribute those gains on a regular monthly basis. In accordance with the Plan, the Fund currently distributes $0.08 per share on a monthly basis.

[a] As a closed-end investment company, the price of the Fund s exchange-traded shares will be set by market forces and can deviate from the net asset value (NAV) per share of the Fund.

[b] The FTSE Nareit Equity REITs Index contains all tax-qualified real estate investment trusts (REITs) except timber and infrastructure REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property that also meet minimum size and liquidity criteria. The ICE BofAML REIT Preferred Securities Index tracks the performance of fixed-rate U.S. dollar-denominated preferred securities issued in the U.S.

domestic market including all REITs. The S&P 500 Index is an unmanaged index of 500 large-capitalization stocks that is frequently used as a general measure of U.S. stock market performance.

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

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

Shareholders should not draw any conclusions about the Fund s investment performance from the amount of these distributions or from the terms of the Fund s Plan. The Fund s total return based on NAV 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 NAV) or widening an existing trading discount.

Market Review

Following a prolonged period of steady gains for stock markets, U.S. REITs declined in a difficult year for equities broadly. REITs initially struggled amid an early-period spike in bond yields and concerns about fundamentals for retail and health care landlords. REITs turned a corner in March as inflation remained generally benign, allowing bond yields to stabilize. Better-than-expected retail sales data added to positive sentiment, as did visible real estate merger and acquisition activity.

REIT returns reached their year-to-date highs in August, aided by continued U.S. job growth, reaccelerating economic activity, rising corporate profits and an 18-year high in consumer confidence. However, market conditions again turned challenging, reflecting a confluence of risk factors, including increased global trade tensions, slowing growth in China and Europe, and a sharp downturn in oil prices. Meanwhile, the U.S. Federal Reserve continued to raise short-term interest rates and as late as December indicated that it would hike rates at least two more times in 2019.

The fourth quarter saw a significant shift in investor preferences toward more defensive assets. After trailing the broad U.S. equity market for much of the year, real estate stocks began to outperform as investors generally favored them for their stable cash flows, high dividend yields and attractive relative valuations.

REIT preferred securities had a negative return for the year, with the bulk of their significant decline occurring in the fourth quarter. The group s generally low-coupon issues came under heavy pressure as credit spreads widened late in the period. In addition, technical pressures weighed on preferreds near the end of 2018, as ETFs and mutual funds that have sizable allocations to preferreds saw significant outflows, which resulted in widespread and often indiscriminate selling of preferred securities, including REIT preferreds. Tax loss-related selling likely contributed to these pressures ahead of year end.

*Fund Performance*

The Fund had a negative total return in the period and underperformed its blended benchmark on both a NAV and market price basis.

For REITs, the year saw a wide variation in returns by property type. Free-standing retail and health care landlords were positive standouts, favored for their relatively stable cash flows tied to typically long-term leases. Stock selection in both sectors detracted from the Fund s relative performance. In health care, the Fund did not hold Omega Healthcare Investors, which had a significant gain.

The data center sector was a notable underperformer, following two years of exceptionally strong performance, amid concerns of slowing demand and its ties to the technology sector. The Fund s overweight in the sector hindered relative performance.

Regional mall and shopping center REITs struggled amid secular concerns over loss of market share to online retailers and shifting consumer behaviors. Sentiment toward retail landlords was also hindered late in the year when Sears announced that it would file for bankruptcy and close more stores. The Fund was underweight both sectors, which aided relative performance; stock selection in regional malls further benefited performance, as the Fund did not own certain owners of lower-quality malls that had sizable share-price declines. Stock selection in the apartment, specialty and office sectors also helped performance.

The Fund s allocation to REIT preferreds contributed to relative performance compared with the blended benchmark, as these holdings held up better than the broader REIT preferreds market. Broadly speaking, the Fund was underweight or did not own some of the lowest-coupon issues that had large declines in the period.

*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), detracted from the Fund s performance for the 12-month period ended December 31, 2018.

*Impact of Derivatives on Fund Performance*

The Fund engaged in the buying and selling of single stock options with the intention of enhancing total returns and reducing overall volatility. These contracts did not have a material effect on the Fund s total return for the 12-month period ended December 31, 2018.

Sincerely,

THOMAS N. BOHJALIAN
*Portfolio Manager*

WILLIAM F. SCAPELL
*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 the report. There is no guarantee that any market forecast set forth in the commentary will be realized. This material represents an assessment of the market environment at a specific point in time, should not be relied upon as investment advice and is not intended to predict or depict performance of any investment.*

Visit Cohen & Steers online at cohenandsteers.com

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

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

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

## Our Leverage Strategy

(Unaudited)

Our current leverage strategy utilizes borrowings up to the maximum permitted by the Investment Company Act of 1940 to provide additional capital for the Fund, with an objective of increasing the net income available for shareholders. As of December 31, 2018, leverage represented 26% 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 expiring in 2020, 2021 and 2022[a] (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 NAV 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[b,c]

| | |
|---|---|
| Leverage (as a % of managed assets) | 26% |
| % Fixed-Rate | 85% |
| % Variable Rate | 15% |
| Weighted Average Rate on Financing | 3.0%[a] |
| Weighted Average Term on Financing | 2.7 years[a] |

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 NAV of the Fund s shares may be reduced by the issuance and ongoing costs of leverage. So long as the Fund is able to invest in securities that produce an investment yield that is greater than the total cost of leverage, the leverage strategy will produce higher current net investment income for shareholders. On the other hand, to the extent that the total cost of leverage exceeds the incremental income gained from employing such leverage, shareholders would realize lower net investment income. In addition to the impact on net income, the use of leverage will have an effect of magnifying capital appreciation or depreciation for shareholders. Specifically, in an up market, leverage will typically generate greater capital appreciation than if the Fund were not employing leverage. Conversely, in down markets, the use of leverage will generally result in greater capital depreciation than if the Fund had been unlevered. To the extent that the Fund is required or elects to reduce its leverage, the Fund may need to liquidate investments, including under adverse economic conditions which may result in capital losses potentially reducing returns to shareholders. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed.

[a] On February 24, 2015, the Fund amended its credit agreement to extend the fixed-rate financing terms, originally expiring in 2017, 2018 and 2019, by three years, now expiring in 2020, 2021 and 2022, respectively. The weighted average rate on financing does not include the three year extension for the 2022 fixed-rate tranche and will increase as the extended fixed-rate tranche becomes effective in 2019. The weighted average term on financing includes the three year extension.

[b] Data as of December 31, 2018. Information is subject to change.

[c] See Note 7 in Notes to Financial Statements.

December 31, 2018

Top Ten Holdings[a]

(Unaudited)

| Security | Value | % of Managed Assets |
|---|---|---|
| Prologis, Inc. | $ 81,646,637 | 4.7 |
| Essex Property Trust, Inc. | 81,061,767 | 4.7 |
| UDR, Inc. | 70,776,772 | 4.1 |
| Equinix, Inc. | 62,053,733 | 3.6 |
| Ventas, Inc. | 52,862,359 | 3.0 |
| Digital Realty Trust, Inc. | 50,883,485 | 2.9 |
| Sun Communities, Inc. | 48,277,770 | 2.8 |
| Extra Space Storage, Inc. | 46,607,063 | 2.7 |
| Crown Castle International Corp. | 45,526,616 | 2.6 |
| Welltower, Inc. | 44,546,644 | 2.6 |

[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, 2018

| | | Shares | Value |
|---|---|---|---|
| Common Stock | 109.3% | | |
| Communications Towers | 3.6% | | |
| Crown Castle International Corp.[a,b] | | 419,098 | $ 45,526,616 |
| | | | |
| Real Estate | 105.7% | | |
| Data Centers | 11.0% | | |
| CyrusOne, Inc.[a,b] | | 522,183 | 27,613,037 |
| Digital Realty Trust, Inc.[a,b] | | 477,555 | 50,883,485 |
| Equinix, Inc.[a,b] | | 176,009 | 62,053,733 |
| | | | 140,550,255 |
| Diversified | 0.7% | | |
| American Assets Trust, Inc.[b] | | 216,013 | 8,677,242 |
| BGP Holdings PLC (Australia)[c,d] | | 3,927,678 | |
| | | | 8,677,242 |
| Health Care | 16.6% | | |
| HCP, Inc. | | 1,446,088 | 40,389,238 |
| Healthcare Trust of America, Inc., Class A[a,b] | | 1,173,949 | 29,712,649 |
| National Health Investors, Inc.[a,b] | | 263,998 | 19,942,409 |
| Sabra Health Care REIT, Inc. | | 1,508,710 | 24,863,541 |
| Ventas, Inc. | | 902,242 | 52,862,359 |
| Welltower, Inc. | | 641,790 | 44,546,644 |
| | | | 212,316,840 |
| Hotel | 5.8% | | |
| Host Hotels & Resorts, Inc.[a,b] | | 1,843,754 | 30,735,379 |
| Pebblebrook Hotel Trust | | 467,408 | 13,232,321 |
| RLJ Lodging Trust[b] | | 628,698 | 10,310,647 |
| Sunstone Hotel Investors, Inc.[a,b] | | 1,493,037 | 19,424,411 |
| | | | 73,702,758 |
| Industrials | 6.4% | | |
| Prologis, Inc.[a,b] | | 1,390,440 | 81,646,637 |

| | | | |
|---|---|---|---|
| NET LEASE | 5.4% | | |
| Four Corners Property Trust, Inc. | | 849,169 | 22,248,228 |
| Gaming and Leisure Properties, Inc. | | 260,563 | 8,418,790 |
| Spirit Realty Capital, Inc. | | 744,649 | 26,248,877 |
| VICI Properties, Inc. | | 673,410 | 12,646,640 |
| | | | 69,562,535 |

See accompanying notes to financial statements.

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

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2018

| | | Shares | Value |
|---|---|---|---|
| Office | 12.2% | | |
| Alexandria Real Estate Equities, Inc.[a,b] | | 222,761 | $ 25,670,978 |
| Boston Properties, Inc.[a,b] | | 294,272 | 33,120,314 |
| Douglas Emmett, Inc.[a,b] | | 654,904 | 22,351,874 |
| Hudson Pacific Properties, Inc.[a,b] | | 553,190 | 16,075,701 |
| Kilroy Realty Corp.[a,b] | | 546,471 | 34,362,096 |
| Vornado Realty Trust[a,b] | | 408,169 | 25,318,723 |
| | | | 156,899,686 |
| Residential | 26.6% | | |
| Apartment | 18.8% | | |
| Apartment Investment & Management Co., Class A[b] | | 421,694 | 18,503,933 |
| Equity Residential[a,b] | | 606,839 | 40,057,442 |
| Essex Property Trust, Inc.[a,b] | | 330,581 | 81,061,767 |
| Mid-America Apartment Communities, Inc. | | 317,616 | 30,395,851 |
| UDR, Inc.[a,b] | | 1,786,390 | 70,776,772 |
| | | | 240,795,765 |
| Manufactured Home | 3.8% | | |
| Sun Communities, Inc.[a,b] | | 474,661 | 48,277,770 |
| Single Family | 3.0% | | |
| Invitation Homes, Inc.[b] | | 1,919,622 | 38,546,010 |
| Student Housing | 1.0% | | |
| American Campus Communities, Inc.[a,b] | | 328,039 | 13,577,534 |
| Total Residential | | | 341,197,079 |
| Self Storage | 7.2% | | |
| Extra Space Storage, Inc.[a,b] | | 515,109 | 46,607,063 |
| Life Storage, Inc.[a,b] | | 193,170 | 17,962,878 |
| Public Storage[a,b] | | 138,620 | 28,058,074 |
| | | | 92,628,015 |
| Shopping Centers | 10.7% | | |

| | | | |
|---|---|---|---|
| Community Center | 4.8% | | |
| Brixmor Property Group, Inc.[a,b] | | 1,283,562 | 18,855,526 |
| Regency Centers Corp.[a,b] | | 450,728 | 26,448,719 |
| Weingarten Realty Investors[b] | | 645,991 | 16,027,037 |
| | | | 61,331,282 |

See accompanying notes to financial statements.