

COHEN & STEERS TOTAL RETURN REALTY FUND INC
Form N-CSR
March 08, 2010

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 811-7154
number

Cohen & Steers Total Return 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)

Adam M. Derechin

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 December 31, 2009
period:

Item 1. Reports to Stockholders.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

To Our Shareholders:

We would like to share with you our report for the year ended December 31, 2009. The net asset value (NAV) at that date was \$11.06 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 \$9.68.

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

	Six Months Ended December 31, 2009	Year Ended December 31, 2009
Cohen & Steers Total Return Realty Fund at Market Value ^a	38.43%	41.08%
Cohen & Steers Total Return Realty Fund at Net Asset Value ^a	45.22%	40.21%
FTSE NAREIT Equity REIT Index ^b	45.80%	27.99%
S&P 500 Index ^b	22.59%	26.46%
Blended benchmark 80% FTSE NAREIT Equity REIT Index, 20% Merrill Lynch REIT Preferred Index ^b	41.23%	31.55%

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. Current total returns of the Fund can be obtained by visiting our Web site at cohenandsteers.com.

The Fund may pay distributions in excess of its investment company taxable income and net realized capital 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.

Investment Review

REITs were a tale of two markets in 2009. The year's early months were characterized by continued fallout from the post-Lehman Brothers financial panic, a blowout in risk premiums and declining credit availability. The

^a As a closed-end investment company, the price of the Fund's New York Stock Exchange-traded shares will be set by market forces and at times may deviate from the net asset value 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 S&P 500 Index is an unmanaged index of common stocks that is frequently used as a general measure of stock market performance. The Merrill Lynch REIT Preferred Index is an unmanaged index of real estate preferred securities.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

asset class sold off on concerns about REITs' limited access to capital amid near-frozen credit markets and limited transparency on property value estimates.

Broader financial markets, including REITs, began to stabilize and rebound when the government provided clarity on the means and costs of backstopping the financial system. This broke the vicious negative feedback loop between the capital markets and the real economy and paved the way for the market rally that followed.

REIT recapitalization lifted share prices

REITs began to raise significant new capital in March, which reassured investors that they could strengthen their balance sheets, meet debt maturities and take advantage of buying opportunities. In total, public real estate companies raised \$20 billion of new equity during the year, and Cohen & Steers was a cornerstone investor in many of the offerings. Recapitalization revealed the pent-up investor demand in the asset class and drove significant spread tightening in the REIT unsecured bond market.

REITs surged in the third quarter as easing liquidity concerns lifted the asset class to its best-ever quarterly return. With access to multiple sources of capital, companies could extend debt maturities and, in some cases, move into a more offensive (acquisitive) posture. The pace of the rally slowed in the fourth quarter, however, when investors' appetite for risk abated and unease over high unemployment grew.

Hotel companies were top performers

The hotel sector (with a total return of +67.2%)^c led all property types in 2009. Their short leases and ability to respond quickly to changing economic conditions began to be discounted amid signs of economic stabilization and likely future economic growth.

Regional malls (+63.0%) turned in a better-than-expected performance, benefiting from recapitalization and stabilization in retail sales and increased consumer confidence. Simon Property Group, the country's largest mall operator, was the first major U.S. REIT to issue new equity. Office REITs (+35.6%) were aided by less-severe job losses in New York and a V-shaped recovery that anticipated a return to profitability by the financial services industry. In both categories, cap rates declined in response to increasing global demand for class-A properties.

Apartment REITs (+30.4%) were hurt early in the year by increased job losses and declines in market rents, but improved in the third quarter on expectations of stabilization in fundamentals in 2010 and growth in 2011.

Shopping centers declined

The shopping center sector (- 1.7%) was the only REIT property group to post a negative total return during the year. Typically considered defensive because of their consumer staples anchors (supermarkets and drug stores), shopping centers' smaller retailers proved to be highly sensitive to the economic downturn. In news, shopping center

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

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

owner Developers Diversified Realty completed the first commercial mortgage-backed securities issuance in more than a year, and it was the first real estate debt offering backed by the Term Asset-Backed Securities Loan Facility.

Health care REITs (+24.6%) and self storage companies (+8.4%) trailed the benchmark, as defensive sectors lagged their more economically sensitive counterparts during 2009's rally.

Preferreds had positive returns

Preferred securities also rebounded. REIT preferreds significantly outperformed most preferreds issued by non-real estate companies, aided by the factors that helped real estate common shares. REITs did not issue preferreds in 2009, favoring the common stock and bond deals that contributed to the supportive investment backdrop.

All securities within the Merrill Lynch REIT Preferred Index (which had a total return of +42.1% for the year) had positive returns, led by those in the office/industrial and shopping center sectors. Self storage had a strong absolute gain but underperformed as investors favored more leveraged companies amid an increased appetite for risk.

Fund performance

The Fund outperformed its benchmarks in the year, aided by its allocation to REIT preferred securities (preferreds are not included in the NAREIT index), which posted strong returns in both absolute terms and compared with the broad REIT preferred and equity markets.

The Fund's REIT equity holdings outperformed the NAREIT index. Stock selection in the health care, office, apartment and industrial sectors contributed to relative return, as did our overweight in the office sector. Factors that hindered relative return included our overweight in the self storage sector and stock selection in the hotel sector (along with our overweight in hotel companies during periods when they underperformed the index). Stock selection in the regional mall sector also detracted from performance, although our beneficial overweight in the high-performing sector more than offset the effect.

Investment Outlook

We expect 2010 to be a year of better-than-expected economic growth and continued stabilization in fundamentals. Although there are concerns about the eventual cost of the government stimulus monetary tightening, higher taxes and the effects of fiscal stimulus we believe the recovery will prove self-sustaining and continue into 2011.

The new year may well be one in which REITs begin to take advantage of significant acquisition opportunities. While the environment is not so distressed as to create dysfunction, well-capitalized REITs with an

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

operating platform will likely have attractive opportunities to create value and generate above-average cash flow growth. During the latter half of 2010 and into 2011, we expect the benefits of economic recovery and growth to translate into occupancy stabilization and selective rent increases in many commercial real estate markets.

From a portfolio standpoint, we currently favor economically sensitive sectors. On a sector-specific basis, we believe that shopping centers, hotels and self-storage REITs will outperform. Office REITs should benefit from low supply and stabilization in jobs, although we believe most of this dynamic is already priced into company valuations. While we expect apartment company fundamentals to improve with job growth and demographic shifts, we remain cautious because of their less favorable valuations.

We expect to maintain our focus on REITs with healthy balance sheets but with a particular focus on entrepreneurial management teams that have the acumen to create, rather than wait for, unique opportunities.

Regarding REIT preferred securities, we continue to find good value in the market and believe that many investors should be attracted by the historically high and stable income offered by these securities. Preferreds could play an increased role in raising capital for acquisition opportunities that arise. Given the current strong demand for REIT preferred paper, we expect any new supply to be greeted warmly.

COHEN & STEERS TOTAL RETURN 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

The views and opinions in the preceding commentary are subject to change. 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 daily net asset values, fund fact sheets and portfolio highlights. You can also access newsletters, education tools and market updates covering the global real estate, listed infrastructure, utilities, large cap value and preferred securities sectors.

In addition, our Web site 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 TOTAL RETURN REALTY FUND, INC.

DECEMBER 31, 2009

Top Ten Holdings
(Unaudited)

	Value	% of Net Assets
Security		
Simon Property Group	\$ 7,724,800	7.5%
Public Storage	5,217,687	5.0
ProLogis	3,859,321	3.7
Macerich Co.	3,624,479	3.5
Host Hotels & Resorts	3,550,691	3.4
Vornado Realty Trust	3,335,299	3.2
Equity Residential	3,112,523	3.0
Boston Properties	3,007,754	2.9
HCP	2,792,975	2.7
Hospitality Properties Trust	2,210,199	2.1

Sector Breakdown

(Based on Net Assets)
(Unaudited)

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.**SCHEDULE OF INVESTMENTS**

December 31, 2009

		Number of Shares	Value
COMMON STOCK	77.4%		
DIVERSIFIED	5.2%		
Cousins Properties		49,191	\$ 375,327
Dexus Property Group (Australia) ^a		576,300	437,225
Forest City Enterprises ^b		23,418	275,864
Great Eagle Holdings Ltd. (Hong Kong) ^a		44,367	115,044
Lexington Realty Trust		146,481	890,605
Vornado Realty Trust		47,688	3,335,299
			5,429,364
HEALTH CARE	10.2%		
Assisted Living Concepts ^b		27,948	736,989
Brookdale Senior Living ^b		88,195	1,604,267
Chartwell Seniors Housing (Canada)		79,300	533,039
HCP		91,453	2,792,975
LTC Properties		14,806	396,060
Nationwide Health Properties		30,254	1,064,336
Omega Healthcare Investors		54,100	1,052,245
Senior Housing Properties Trust		47,782	1,044,992
Ventas		30,288	1,324,797
			10,549,700
HOTEL	6.3%		
Hospitality Properties Trust		93,218	2,210,199
Host Hotels & Resorts		304,258	3,550,691
Sunstone Hotel Investors ^b		88,163	782,887
			6,543,777
INDUSTRIAL	5.0%		
AMB Property Corp.		29,433	752,013
ProLogis		281,908	3,859,321
ProLogis European Properties (Netherlands) ^a		45,946	281,631
Segro PLC (United Kingdom) ^a		43,679	242,278
			5,135,243

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2009

	Number of Shares	Value
MORTGAGE 0.4%		
MFA Financial	60,055	\$ 441,404
OFFICE 10.5%		
BioMed Realty Trust	33,395	526,973
Boston Properties	44,845	3,007,754
Brookfield Properties Corp. (Canada)	64,056	776,359
Douglas Emmett	2,497	35,582
Hongkong Land Holdings Ltd. (USD)(Singapore) ^a	90,200	444,242
ING Office Fund (Australia) ^a	828,000	470,656
Kilroy Realty Corp.	24,428	749,207
Liberty Property Trust	47,549	1,522,043
Mack-Cali Realty Corp.	37,122	1,283,308
SL Green Realty Corp.	41,936	2,106,865
		10,922,989
OFFICE/INDUSTRIAL 1.3%		
PS Business Parks	26,065	1,304,553
RESIDENTIAL 11.3%		
APARTMENT 10.8%		
American Campus Communities	27,400	769,940
Apartment Investment & Management Co.	65,994	1,050,624
Associated Estates Realty Corp.	54,252	611,420
AvalonBay Communities	21,487	1,764,297
Camden Property Trust	18,817	797,276
Colonial Properties Trust	44,537	522,419
Education Realty Trust	70,389	340,683
Equity Residential	92,141	3,112,523
Home Properties	23,338	1,113,456
Post Properties	27,566	540,294
UDR	32,936	541,468
		11,164,400
MANUFACTURED HOME 0.5%		
Equity Lifestyle Properties	9,987	504,044
TOTAL RESIDENTIAL		11,668,444

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2009

	Number of Shares	Value
SELF STORAGE 7.1%		
Public Storage	64,060	\$ 5,217,687
Sovran Self Storage	30,567	1,092,159
U-Store-It Trust	146,300	1,070,916
		7,380,762
SHOPPING CENTER 19.6%		
COMMUNITY CENTER 8.6%		
Developers Diversified Realty Corp.	180,278	1,669,374
Federal Realty Investment Trust	15,300	1,036,116
Kimco Realty Corp.	151,419	2,048,699
Realty Income Corp.	28,299	733,227
Regency Centers Corp.	47,957	1,681,372
Urstadt Biddle Properties	32,200	491,694
Weingarten Realty Investors	65,450	1,295,256
		8,955,738
REGIONAL MALL 11.0%		
Macerich Co.	100,820	3,624,479
Simon Property Group	96,802	7,724,800
		11,349,279
TOTAL SHOPPING CENTER		20,305,017
SPECIALTY 0.5%		
Weyerhaeuser Co.	12,428	536,144
TOTAL COMMON STOCK (Identified cost \$65,637,187)		80,217,397
PREFERRED SECURITIES \$25 PAR VALUE 19.1%		
INSURANCE 0.5%		
Allianz SE, 8.375%	10,250	253,047
ING Groep N.V., 8.50%	12,000	263,640
		516,687
INTEGRATED TELECOMMUNICATIONS SERVICES 0.5%		
Telephone & Data Systems, 7.60%, due 12/1/41, Series A	20,000	491,200

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2009

		Number of Shares	Value
REAL ESTATE	18.1%		
DIVERSIFIED	3.6%		
Cousins Properties, 7.75%, Series A		26,725	\$ 560,156
Duke Realty Corp., 8.375%, Series O		39,000	958,620
Lexington Realty Trust, 6.50%, Series C (\$50 par value)		24,900	845,853
Lexington Realty Trust, 7.55%, Series D		16,500	300,300
Vornado Realty Trust, 6.625%, Series G		19,975	432,459
Vornado Realty Trust, 6.625%, Series I		30,239	666,467
			3,763,855
HEALTH CARE	0.6%		
Health Care REIT, 7.625%, Series F		24,100	600,090
HOTEL	0.5%		
Hospitality Properties Trust, 7.00%, Series C		16,000	340,160
Sunstone Hotel Investors, 8.00%, Series A		8,225	190,409
			530,569
INDUSTRIAL	1.2%		
AMB Property Corp., 6.75%, Series M		26,684	559,564
ProLogis Trust, 6.75%, Series F		30,000	639,000
			1,198,564
OFFICE	2.0%		
Alexandria Real Estate Equities, 7.00%, Series D		45,000	976,500
BioMed Realty Trust, 7.375%, Series A		32,800	760,960
Maguire Properties, 7.625%, Series A		48,060	334,978
			2,072,438
OFFICE/INDUSTRIAL	0.7%		
PS Business Parks, 6.70%, Series P		37,100	773,535
RESIDENTIAL APARTMENT	2.6%		
Apartment Investment & Management Co., 9.375%, Series G		48,200	1,229,582
Apartment Investment & Management Co., 7.75%, Series U		50,000	1,115,000
Equity Residential, 6.48%, Series N		15,000	337,800
			2,682,382

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2009

	Number of Shares	Value
SELF STORAGE 0.7%		
Public Storage, 6.625%, Series M	30,000	\$ 698,700
SHOPPING CENTER 5.2%		
COMMUNITY CENTER 4.4%		
Developers Diversified Realty Corp., 8.00%, Series G	30,000	600,000
Developers Diversified Realty Corp., 7.375%, Series H	19,900	369,145
Kimco Realty Corp., 7.75%, Series G	20,025	491,614
Regency Centers Corp., 7.45%, Series C	49,500	1,158,795
Regency Centers Corp., 7.25%, Series D	19,020	437,650
Saul Centers, 8.00%, Series A	18,700	449,735
Urstadt Biddle Properties, 8.50%, Series C (\$100 par value) ^c	4,000	389,000
Weingarten Realty Investors, 6.50%, Series F	34,028	706,081
		4,602,020
REGIONAL MALL 0.8%		
CBL & Associates Properties, 7.75%, Series C	16,000	326,400
Simon Property Group, 8.375%, Series J (\$50 par value) ^c	8,130	508,125
		834,525
TOTAL SHOPPING CENTER		5,436,545
SPECIALTY 1.0%		
Digital Realty Trust, 8.50%, Series A	358	9,041
Digital Realty Trust, 7.875%, Series B	11,526	286,306
Entertainment Properties Trust, 9.00%, Series E	27,944	694,967
		990,314
TOTAL REAL ESTATE		18,746,992
TOTAL PREFERRED SECURITIES \$25 PAR VALUE		
(Identified cost \$18,531,445)		19,754,879
PREFERRED SECURITIES CAPITAL SECURITIES		
INSURANCE PROPERTY CASUALTY 1.2%		
Liberty Mutual Group, 7.80%, due 3/15/37, 144A ^d	1,000,000	835,000
Liberty Mutual Group, 10.75%, due 6/15/58, 144A ^d	390,000	417,300
TOTAL PREFERRED SECURITIES CAPITAL SECURITIES		
(Identified cost \$1,353,254)		1,252,300

See accompanying notes to financial statements.

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COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2009

		Principal Amount	Value
CORPORATE BONDS	1.0%		
REAL ESTATE			
DIVERSIFIED	0.5%		
Forest City Enterprises, 5.00%, due 10/15/16, 144A ^d		\$ 500,000	\$ 546,250
SHOPPING CENTER COMMUNITY CENTER	0.5%		
Developers Diversified Realty Corp., 9.625%, due 3/15/16		500,000	522,590
TOTAL CORPORATE BONDS (Identified cost \$982,144)			1,068,840
		Number of Shares	
SHORT-TERM INVESTMENTS	2.0%		
MONEY MARKET FUNDS			
Federated Government Obligations Fund, 0.06% ^e		1,050,015	1,050,015
State Street Institutional Liquid Reserves Fund, 0.16% ^e		1,050,000	1,050,000
TOTAL SHORT-TERM INVESTMENTS			2,100,015
(Identified cost \$2,100,015)			
TOTAL INVESTMENTS (Identified cost \$88,604,045)	100.7%		104,393,431
LIABILITIES IN EXCESS OF OTHER ASSETS	(0.7)		(724,000)
NET ASSETS (Equivalent to \$11.06 per share based on 9,374,179 shares of common stock outstanding)	100.0%		\$ 103,669,431

Glossary of Portfolio Abbreviations

REIT Real Estate Investment Trust

USD United States Dollar

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

^a 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 value securities represent 1.9% of net assets of the Fund, all of which have been fair valued pursuant to foreign security fair value pricing procedures approved by the Board of Directors.

^b Non-income producing security.

^c Illiquid security. Aggregate holdings equal 0.9% of net assets of the Fund.

^d Resale is restricted to qualified institutional investors. Aggregate holdings equal 1.7% of net assets of the Fund.

^e Rate quoted represents the seven day yield of the fund.

See accompanying notes to financial statements.

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COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2009

ASSETS:

Investments in securities, at value (Identified cost \$88,604,045)	\$ 104,393,431
Cash	35,637