

COHEN & STEERS TOTAL RETURN REALTY FUND INC
Form N-CSR
March 06, 2009

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 811-7154

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 period: December 31, 2008

Item 1. Reports to Stockholders.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

To Our Shareholders:

We are pleased to submit to you our report for the year ended December 31, 2008. The net asset value at that date was \$8.45 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 net asset value; at year end, the Fund's closing price on the NYSE was \$7.35. The total returns, including income, for the Fund and the comparative benchmarks were:

	Six Months Ended December 31, 2008	Year Ended December 31, 2008
Cohen & Steers Total Return Realty Fund at Market Value ^a	44.77%	37.72%
Cohen & Steers Total Return Realty Fund at Net Asset Value ^a	30.13%	32.15%
FTSE NAREIT Equity REIT Index ^b	35.41%	37.73%
S&P 500 Index ^b	28.47%	36.99%
Blended benchmark 80% NAREIT Equity REIT Index, 20% Merrill Lynch REIT Preferred Index ^b	30.91%	31.75%

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.

A quarterly dividend of \$0.15 per common share was declared and will be paid to common shareholders on March 31, 2009.^c The Fund may pay distributions in excess of the Fund's 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.

^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.

^c Please note that distributions paid by the Fund to shareholders are subject to recharacterization for tax purposes. The final tax treatment of these distributions is reported to shareholders after the close of the calendar year.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

Investment Review

The year was volatile for equities in the United States and around the world. It began with a sell-off driven by a fresh wave of write-downs from major banks, followed by the hastily arranged sale of Bear Stearns to JPMorgan Chase. The shocks kept coming, picking up speed in September with the U.S. government takeover of Fannie Mae and Freddie Mac, Lehman Brothers' bankruptcy and the nationalization of insurance giant AIG.

Amid concerns that the entire financial system could be at risk, the U.S. Congress, Treasury secretary and Federal Reserve chairman structured a \$700 billion rescue package that has been used to buy preferred shares in banks to bolster capital and encourage lending. The Fed and other central banks dropped interest rates and implemented stimulus packages in a coordinated effort to break the credit freeze and kick-start the global economy.

REITs in line with the broad stock market

Real estate securities had a positive year-to-date return through September, outperforming the broad stock market by a substantial margin before declining in the fourth-quarter sell-off. For the year, they performed in line with the S&P 500 Index. Given a weakening economy and tight credit, the market further downgraded property value estimates although the absence of transactions has made it increasingly difficult to support those estimates. Investors questioned whether real estate companies would be able to refinance maturing debt on favorable terms.

Most property sectors had double-digit declines for the year. REITs with the strongest balance sheets generally outperformed the index, especially in the fourth quarter. The self storage sector (which had a total return of +5.1% for the year) was the only sector to post a gain; it is dominated by Public Storage, a company with a debt-free balance sheet. Health care (12.0%) was cushioned by its perceived defensive nature. The apartment sector (25.1%) also outperformed, due to relatively favorable fundamentals demand for rental property was supported by weakness in the housing and mortgage markets.

The industrial sector (67.5%), which contained certain companies (such as ProLogis) whose business models were more dependent on transactional income, had the poorest performance, as the absence of financing affected their ability to find buyers, and declining cash flows weakened balance sheets. The regional mall sector (60.6%) was hurt by retailer bankruptcy liquidations and moderating consumer spending. The shopping center sector (38.8%), which is more represented by consumer staples retailers, performed in line with the index. The office sector (41.1%) struggled, with particular weakness among companies focused on areas with large financial services industries.

REIT preferreds caught in the downdraft

REIT preferred securities outperformed many investment classes in 2008, including equities, the broader preferred market and even REIT bonds. However, they did not escape the disruption and volatility that characterized global markets. Their decline reflected a rapidly weakening economic environment that led to worsening fundamentals and tighter credit conditions for REITs.

Performance slightly trailed the blended benchmark

The Fund declined in a poor year for real estate securities, although it outperformed the NAREIT benchmark on a net asset value basis. This was due in part to our REIT preferred securities, an allocation designed to mitigate

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

volatility and enhance income. Preferreds, especially those issued by real estate companies, outperformed real estate common stocks in the period. However, the Fund's REIT preferreds trailed the REIT preferred component of the blended benchmark on a total-return basis; our underweight in REIT preferreds, compared with the blended benchmark, also detracted from return.

With respect to REIT common stocks, the primary contributors to relative performance were our stock selection and limited weighting in the industrial sector, based on valuations and our concerns over earnings stability. Stock selection in the shopping center sector also aided relative return, as did our underweight in that sector. Income considerations led us to be overweight in the health care sector. This proved beneficial, although stock selection partly offset the weighting effect.

Factors that hindered relative return included our overweight and stock selection in the office sector; this was in part due to the poor performance of Maguire Properties. The stock was hurt by concerns over the company's debt and its presence in Orange County, California, a market threatened by mortgage-related declines in employment. Stock selection in the regional mall sector also hindered performance, as did our underweight in the self storage sector.

Investment Outlook

We expect to see an average 4% decline in cash flows over the next year (more bearish views on equities in the S&P 500 Index suggest a 12% drop). However, this reflects softening demand, not oversupply, which in some past cycles weighed heavily on real estate companies. Given this outlook for fundamentals, vacancy rates are likely to rise, but not reach the highs seen in previous difficult cycles.

Until banks start lending again, and as long as the windows for unsecured bonds and commercial mortgage-backed securities stay closed, REIT balance sheets will remain under pressure. That said, we believe that the vast majority of these companies are structurally sound, and that they will have sufficient operating capital to navigate 2009 successfully. Some real estate companies may cut dividends to preserve cash and strengthen their balance sheets; others may recapitalize through dilutive equity offerings. At some point, the lending environment will improve as banks reconsider the opportunity costs of holding cash and investing in low-yield securities.

In our view, much pessimism has already been factored into U.S. REIT share prices, which are trading at cash flow multiples at the lower end of the range seen over the past two decades. As investors seek higher income and returns, they may target real estate securities, which had an average dividend yield of 7.6% at the end of the period, compared with 3.2% for the S&P 500 Index and a yield of 2.3% for the 10-year Treasury.

With respect to REIT preferreds, credit spreads and absolute yields are near their highest levels ever. Given the economic backdrop, it is unlikely that they will stage a strong recovery in the near term. However, we expect that they will discount a better outlook well before the recession has passed. They may also continue to react favorably to the aggressive steps many REITs are taking to stabilize their credit fundamentals.

A focus on balance sheets

We favor companies with strong balance sheets and visible, relatively stable earnings. At the same time, we recognize that there are an increasing number of attractive risk-adjusted investment opportunities with companies

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

that have been, in our view, unduly punished in the past year's "flight to safety." We view with interest those companies that have adapted to the current environment and are following through on their strategies. Although some are priced at distressed levels (with stock multiples as low as 2x future cash flows), we believe very few companies will fail, and many will produce outstanding returns in time. To that end, we have increased the number of holdings in the portfolio in order to take advantage of the higher potential total returns these companies offer.

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, 2008

Top Ten Holdings^a
(Unaudited)

Security	Value	% of Net Assets
Simon Property Group	\$ 5,773,850	7.3%
Vornado Realty Trust	5,322,870	6.7
Boston Properties	3,907,365	4.9
Mack-Cali Realty Corp.	3,040,450	3.8
Liberty Property Trust	2,949,636	3.7
Public Storage	2,628,270	3.3
Macerich Co.	2,259,104	2.9
AvalonBay Communities	2,083,952	2.6
Ventas	2,079,225	2.6
Regency Centers Corp.	2,026,173	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 Net Assets)
(Unaudited)

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS

December 31, 2008

		Number of Shares	Value
COMMON STOCK	76.7%		
DIVERSIFIED	8.0%		
Land Securities Group PLC (United Kingdom) ^a		13,800	\$ 185,532
Unibail-Rodamco (France) ^a		5,700	851,549
Vornado Realty Trust		88,200	5,322,870
			6,359,951
HEALTH CARE	10.4%		
HCP		68,200	1,893,914
Health Care REIT		25,900	1,092,980
Nationwide Health Properties		45,023	1,293,060
Omega Healthcare Investors		74,800	1,194,556
Senior Housing Properties Trust		38,915	697,357
Ventas		61,937	2,079,225
			8,251,092
HOTEL	3.0%		
DiamondRock Hospitality Co.		48,000	243,360
Host Hotels & Resorts		265,311	2,008,405
Strategic Hotels & Resorts		53,493	89,868
			2,341,633
INDUSTRIAL	4.0%		
AMB Property Corp.		49,250	1,153,435
EastGroup Properties		17,000	604,860
ProLogis		102,315	1,421,155
			3,179,450
OFFICE	16.8%		
BioMed Realty Trust		87,383	1,024,129
Boston Properties		71,043	3,907,365
Brandywine Realty Trust		102,685	791,701
Kilroy Realty Corp.		27,000	903,420
Liberty Property Trust		129,200	2,949,636
Mack-Cali Realty Corp.		124,100	3,040,450
SL Green Realty Corp.		25,400	657,860
			13,274,561

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2008

		Number of Shares	Value
RESIDENTIAL APARTMENT	11.9%		
American Campus Communities		39,993	\$ 819,057
Apartment Investment & Management Co.		59,807	690,771
AvalonBay Communities		34,400	2,083,952
Camden Property Trust		22,112	692,990
Education Realty Trust		56,900	297,018
Equity Residential		47,149	1,405,983
Home Properties		31,900	1,295,140
Mid-America Apartment Communities		24,400	906,704
UDR		88,691	1,223,049
			9,414,664
SELF STORAGE	5.6%		
Extra Space Storage		55,100	568,632
Public Storage		33,060	2,628,270
Sovran Self Storage		33,400	1,202,400
			4,399,302
SHOPPING CENTER	17.0%		
COMMUNITY CENTER	6.7%		
Developers Diversified Realty Corp.		95,332	465,220
Federal Realty Investment Trust		27,726	1,721,230
Inland Real Estate Corp.		55,300	717,794
Regency Centers Corp.		43,387	2,026,173
Weingarten Realty Investors		16,992	351,565
			5,281,982
REGIONAL MALL	10.3%		
Glimcher Realty Trust		60,529	170,086
Macerich Co.		124,400	2,259,104
Simon Property Group		108,674	5,773,850
			8,203,040
TOTAL SHOPPING CENTER			13,485,022
TOTAL COMMON STOCK			
(Identified cost \$64,870,873)			60,705,675

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2008

		Number of Shares	Value
PREFERRED SECURITIES \$25 PAR VALUE	17.1%		
BANK	0.5%		
Bank of America Corp., 8.20%		20,000	\$ 405,000
INSURANCE	0.6%		
Allianz SE, 8.375%		25,000	487,500
INTEGRATED TELECOMMUNICATIONS SERVICES	0.7%		
Telephone & Data Systems, 7.60%, due 12/1/41, Series A		35,000	525,000
REAL ESTATE	15.3%		
DIVERSIFIED	1.9%		
Duke Realty Corp., 8.375%, Series O		24,100	346,076
Lexington Realty Trust, 7.55%, Series D		16,500	164,010
Vornado Realty Trust, 6.625%, Series G		19,975	325,393
Vornado Realty Trust, 6.625%, Series I		35,000	674,450
			1,509,929
HEALTH CARE	1.7%		
Health Care REIT, 7.625%, Series F		24,100	445,850
Health Care REIT, 7.50%, Series G		30,000	915,600
			1,361,450
HOTEL	0.3%		
Hospitality Properties Trust, 7.00%, Series C		16,000	209,440
INDUSTRIAL	0.5%		
AMB Property Corp, 6.75%, Series M		23,884	375,695
OFFICE	0.6%		
BioMed Realty Trust, 7.375%, Series A		32,800	463,136
OFFICE/INDUSTRIAL	0.7%		
PS Business Parks, 6.70%, Series P		37,100	593,600
RESIDENTIAL APARTMENT	2.5%		
Apartment Investment & Management Co., 9.375%, Series G		48,200	762,042
Apartment Investment & Management Co., 7.75%, Series U		60,000	831,000
Mid-America Apartment Communities, 8.30%, Series H		17,300	376,102
			1,969,144

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2008

		Number of Shares	Value
SELF STORAGE	1.7%		
Public Storage, 6.18%, Series D		13,200	\$ 225,060
Public Storage, 7.25%, Series I		29,700	654,885
Public Storage, 6.625%, Series M		25,000	462,500
			1,342,445
SHOPPING CENTER	4.9%		
COMMUNITY CENTER	4.2%		
Kimco Realty Corp., 7.75%, Series G		56,725	1,021,050
Regency Centers Corp., 7.45%, Series C		44,500	801,000
Regency Centers Corp., 7.25%, Series D		19,020	339,507
Saul Centers, 8.00%, Series A		18,700	287,606
Urstadt Biddle Properties, 8.50%, Series C (\$100 par value) ^b		4,000	290,000
Weingarten Realty Investors, 6.50%, Series F		40,000	624,000
			3,363,163
REGIONAL MALL	0.7%		
CBL & Associates Properties, 7.75%, Series C		25,000	200,000
Simon Property Group, 8.375%, Series J (\$50 par value) ^b		8,130	349,590
			549,590
TOTAL SHOPPING CENTER			3,912,753
SPECIALTY	0.5%		
Digital Realty Trust, 8.50%, Series A		10,700	171,200
Digital Realty Trust, 7.875%, Series B		13,200	195,756
			366,956
TOTAL REAL ESTATE			12,104,548
TOTAL PREFERRED SECURITIES \$25 PAR VALUE			
(Identified cost \$18,321,345)			13,522,048
PREFERRED SECURITIES CAPITAL SECURITIES	3.2%		
BANK	1.9%		
Bank of America Corp., 8.00%, due 12/29/49		300,000	216,096
Bank of America Corp., 8.125%, due 12/29/49		500,000	374,625

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2008

		Number of Shares	Value
Citigroup, 8.40%, due 4/29/49		750,000	\$ 496,155
JPMorgan Chase, 7.90%, due 4/30/49		500,000	417,013
			1,503,889
INSURANCE PROPERTY CASUALTY	0.6%		
Liberty Mutual Group, 7.80%, due 3/15/37, 144A ^c		1,000,000	449,412
PIPELINES	0.7%		
Enterprise Products Operating LP, 8.375%, due 8/1/66		1,000,000	550,628
TOTAL PREFERRED SECURITIES CAPITAL SECURITIES (Identified cost \$3,920,236)			2,503,929
		Principal Amount	
CORPORATE BONDS	1.1%		
INSURANCE PROPERTY CASUALTY	0.3%		
Liberty Mutual Group, 10.75%, due 6/15/58, 144A ^c		\$ 500,000	275,355
REAL ESTATE HEALTH CARE	0.8%		
HCP, 6.70%, due 1/30/18		1,250,000	600,201
TOTAL CORPORATE BONDS (Identified cost \$1,062,598)			875,556
		Number of Shares	
SHORT-TERM INVESTMENT	1.6%		
MONEY MARKET FUND			
Dreyfus Treasury Cash Management Fund, 0.17% ^d (Identified cost \$1,283,193)		1,283,193	1,283,193

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2008

		Value
TOTAL INVESTMENTS (Identified cost \$89,458,245)	99.7%	\$ 78,890,401
OTHER ASSETS IN EXCESS OF LIABILITIES	0.3%	227,170
NET ASSETS (Equivalent to \$8.45 per share based on 9,358,453 shares of common stock outstanding)	100.0%	\$ 79,117,571

Glossary of Portfolio Abbreviation

REIT Real Estate Investment Trust

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 1.3% 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 Illiquid security. Aggregate holdings equal 0.8% of net assets of the Fund.

^c Resale is restricted to qualified institutional investors. Aggregate holdings equals 0.9% of net assets of the Fund.

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

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2008

ASSETS:	
Investments in securities, at value (Identified cost \$89,458,245)	\$ 78,890,401
Dividends and interest receivable	908,290
Receivable for investment securities sold	176,600
Other assets	2,806
Total Assets	79,978,097
LIABILITIES:	
Payable for investment securities purchased	608,074
Payable for dividends declared	140,906
Payable for investment advisory fees	42,468
Payable for directors' fees	2,103
Other liabilities	66,975
Total Liabilities	860,526
NET ASSETS applicable to 9,358,453 shares of \$0.001 par value common stock outstanding	\$ 79,117,571
NET ASSETS consist of:	
Paid-in-capital	\$ 91,324,622
Accumulated undistributed net investment income	186,848
Accumulated net realized loss	(1,825,545)
Net unrealized depreciation	(10,568,354)
	\$ 79,117,571
NET ASSET VALUE PER SHARE:	
(\$79,117,571 ÷ 9,358,453 shares outstanding)	\$ 8.45
MARKET PRICE PER COMMON SHARE	\$ 7.35
MARKET PRICE DISCOUNT TO NET ASSET VALUE PER SHARE	(13.02)%

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2008

Investment Income:	
Dividend income (net of \$22,737 of foreign withholding tax)	\$ 4,977,893
Interest income	300,980
Total Income	5,278,873
Expenses:	
Investment advisory fees	800,903
Professional fees	127,066
Directors' fees and expenses	53,316
Shareholder reporting expenses	40,196
Custodian fees and expenses	37,470
Transfer agent fees and expenses	24,706
Administration fees	17,306
Miscellaneous	38,114
Total Expenses	1,139,077
Net Investment Income	4,139,796
Net Realized and Unrealized Loss:	
Net realized loss on:	
Investments	(148,535)
Foreign currency transactions	(2,283)
Net realized loss	(150,818)
Net change in unrealized depreciation on:	
Investments	(42,493,303)
Foreign currency translations	(845)
Net change in unrealized depreciation	(42,494,148)