

COHEN & STEERS TOTAL RETURN REALTY FUND INC  
Form N-CSR  
February 28, 2007

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, 2006

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**Item 1. Reports to Stockholders.**

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**COHEN & STEERS TOTAL RETURN REALTY FUND, INC.**

February 9, 2007

To Our Shareholders:

We are pleased to submit to you our report for the year ended December 31, 2006. The net asset value at that date was \$19.74 per common share. The fund's common stock is traded on the New York Stock Exchange and its share price can differ from its net asset value; at year end, the fund's closing price on the NYSE was \$20.32. The total return, including income, for Cohen & Steers Total Return Realty Fund and the comparative benchmarks were:

	Six Months Ended 12/31/06	Year Ended 12/31/06
Cohen & Steers Total Return Realty Fund at Market Value <sup>a</sup>	30.53%	26.74%
Cohen & Steers Total Return Realty Fund at Net Asset Value <sup>a</sup>	15.31%	26.68%
FTSE NAREIT Equity REIT Index <sup>b</sup>	19.61%	35.06%
S&P 500 Index <sup>b</sup>	12.75%	15.80%
Blend- 80% FTSE NAREIT Equity REIT Index, 20% Merrill Lynch REIT Preferred Index <sup>b</sup>	17.24%	29.71%

*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 long-term capital gains distribution of \$1.63 per share was declared for shareholders of record on December 26, 2006 and was paid on December 29, 2006.

Three monthly dividends of \$0.11 per common share were declared and will be paid to common shareholders on January 31, 2007, February 28, 2007 and March 30, 2007.<sup>c</sup>

<sup>a</sup> 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.

<sup>b</sup> The FTSE NAREIT Equity REIT Index is an unmanaged, market capitalization weighted index of all publicly traded REITs that invest predominantly in the equity ownership of real estate. The index is designed to reflect the performance of all publicly traded equity REITs as a whole. The 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.

<sup>c</sup> 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 each fiscal year on form 1099-DIV.

**COHEN & STEERS TOTAL RETURN REALTY FUND, INC.**

Investment Review

Real estate securities performed well both in absolute terms and compared with the broader U.S. stock market, reflecting strong underlying real estate fundamentals and earnings that generally met or exceeded expectations. In addition, a global phenomenon of abundant demand for the investment characteristics that real estate provides benefited REITs, as investors willingly accepted lower yields for property investments. Finally, and perhaps most profoundly, investors began to recognize that, with the end of the disinflationary period that began in 1981, the implicit inflation-hedging characteristics historically offered by real property have again become valuable.

*Public markets, private value*

Reflecting the fluidity between public and private markets for real estate to a greater extent than ever, activity on both the M&A and IPO fronts continued. In a notable example of the latter, Douglas Emmett, a company focused on Los Angeles office and apartment properties, went public in late October, raising in excess of \$1.6 billion. It was the largest IPO in U.S. REIT history. Investor enthusiasm for sizable income-producing property companies was evident in the successful offering and the fact that it was the fourth U.S. REIT to raise equity of more than \$1 billion in 2006.

In November, Equity Office Properties Trust agreed to be acquired by The Blackstone Group, in a transaction valued at \$36 billion – an 8.5% premium to the stock's prior business-day closing price. In the weeks since, into February 2007, a bidding contest with Vornado Realty Trust has driven the price up to \$39 billion. This transaction demonstrated that any portfolio of well-located, high-quality properties, regardless of size, is a potential source of value, considering that EOP is the third-largest U.S. REIT (measured by market capitalization) and is set to be the largest-ever LBO of any type.

*Performance: Across the board strength*

All sectors within the NAREIT benchmark enjoyed double-digit gains in 2006, as demand continued to outstrip supply. Job creation continued, despite a slowing of GDP growth. In the office sector, a top performer, this was reflected in rising demand and rents for office space. Apartments also outperformed as consumers became increasingly leery of the run-up in home prices.

More business-related travel, meanwhile, supported hotel demand, which exceeded expectations. One area where job growth has been lackluster is manufacturing; the warehouse sector nonetheless had a good absolute return due to strong absorption of warehouse space, driven by significant manufacturing productivity gains, higher output and international trade. Regional malls underperformed, on stock-specific weakness and fears that dwindling home equity would sap consumer vitality.

## COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

From a sector perspective, factors that aided the fund included its underweighting in the specialty sector in particular, its avoidance of certain timber companies that underperformed as housing construction slowed and its overweighting in the health care sector, which had good performance. Stock selection in the regional mall and office sectors detracted from the fund's performance.

### *REIT preferreds recover*

The environment for REIT preferreds was favorable in absolute terms, with the Merrill Lynch REIT Preferred Index up 9.8% in 2006. After a shaky first half when inflation and Fed tightening were primary concerns, REIT preferreds ended the year on a high note as economic growth slowed, inflation moderated and bond yields fell from 5.25% in July to 4.71% at year end, as measured by the 10-year Treasury yield. The fund's REIT preferreds continued their designated job of enhancing potential income while providing stability.

In 2006, about \$3 billion in REIT preferred deals were priced, down approximately 20% from 2005. A single issuer, Public Storage, Inc., accounted for nearly one-third of the new supply in connection with its acquisition of Shurgard Storage Centers, Inc. The slowdown tracked rising equity prices, which persuaded many REITs to issue common stock or convertible securities, with their low coupons, to meet their funding needs.

### Investment Outlook

#### *Fundamentals still positive*

Real estate securities have now outperformed the broader U.S. stock market with sizable double-digit gains for the fourth straight year. We do not expect results of similar magnitude in 2007, although based on our view of market sentiment, real estate fundamentals and valuations, we see the potential for attractive total returns, barring an unforeseen and dramatic economic pullback.

We believe sentiment toward real estate securities has moved from overtly bearish to approximately neutral. For example, Wall Street estimates of REIT total returns in 2007 are mostly positive, commensurate with our view, as opposed to the previous two years, when analysts were calling for flat to negative total returns. At the same time, the rapid acceleration of real estate fundamentals will most likely moderate somewhat in the coming year. Therefore, because the P/E multiple expansion stemming from the past three years of accelerating fundamentals has probably run its course projected 2007 REIT cash flow growth, for example, is in the 9% range, a marginal acceleration from 2006 levels we do not expect any further widespread multiple expansion.

Finally, from a valuation perspective, our view is commensurately neutral as well. With multiples high due to higher observable worldwide asset values for real estate and asset value premiums at historical norms, we believe REITs are fairly valued today. Therefore, in contrast to recent years, we are expecting more normalized returns in 2007 for real estate stocks, based on solid dividend yields and continued attractive growth in cash flow.

**COHEN & STEERS TOTAL RETURN REALTY FUND, INC.**

Sincerely,

MARTIN COHEN

*Co-chairman*

ROBERT H. STEERS

*Co-chairman*

JOSEPH M. HARVEY

*Portfolio Manager*

JAMES S. CORL

*Portfolio Manager*

WILLIAM F. SCAPELL

*Portfolio Manager*

THOMAS N. BOHJALIAN

*Portfolio Manager*

*The views and opinions in the preceding commentary are as of the date stated and 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.*

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For more information about any of our funds, visit [cohenandsteers.com](http://cohenandsteers.com), where you'll find daily net asset values, fund fact sheets and portfolio highlights. You can also access newsletters, education tools and market updates covering REIT, utility 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, 2006

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

Security <sup>a</sup>	Market Value	% of Net Assets
Ventas	\$ 11,921,544	6.5%
Vornado Realty Trust	10,242,450	5.6
Equity Office Properties Trust	10,009,726	5.5
Macerich Co.	9,306,275	5.1
AvalonBay Communities	7,724,970	4.2
Health Care Property Investors	6,855,884	3.8
Mack-Cali Realty Corp.	6,686,100	3.7
Liberty Property Trust	6,348,888	3.5
Brandywine Realty Trust	6,147,427	3.4
Archstone-Smith Trust	5,376,334	2.9

<sup>a</sup> Top ten holdings are determined on the basis of the market value of individual securities held.

Sector Breakdown

(Based on Net Assets)  
(Unaudited)



**COHEN & STEERS TOTAL RETURN REALTY FUND, INC.**

## SCHEDULE OF INVESTMENTS

December 31, 2006

		Number of Shares	Value
<b>COMMON STOCK</b>	<b>79.7%</b>		
<b>DIVERSIFIED</b>	<b>10.1%</b>		
Colonial Properties Trust		82,100	\$ 3,848,848
Entertainment Properties Trust		20,500	1,198,020
iStar Financial		39,000	1,864,980
Spirit Finance Corp.		96,800	1,207,096
Vornado Realty Trust		84,300	10,242,450
			18,361,394
<b>HEALTH CARE</b>	<b>14.9%</b>		
Health Care Property Investors		186,200	6,855,884
Health Care REIT		27,600	1,187,352
Medical Properties Trust		26,900	411,570
Nationwide Health Properties		157,300	4,753,606
Senior Housing Properties Trust		84,500	2,068,560
Ventas		281,700	11,921,544
			27,198,516
<b>HOTEL</b>	<b>3.4%</b>		
DiamondRock Hospitality Co.		99,100	1,784,791
Hospitality Properties Trust		51,700	2,457,301
Strategic Hotels & Resorts		86,700	1,889,193
			6,131,285
<b>INDUSTRIAL</b>	<b>1.2%</b>		
DCT Industrial Trust		40,100	473,180
ING Industrial Fund (Australia)		453,102	847,645
ProLogis European Properties (Netherlands)		48,400	958,356
			2,279,181
<b>MORTGAGE</b>	<b>1.8%</b>		
Newcastle Investment Corp.		107,827	3,377,142

See accompanying notes to financial statements.

**COHEN & STEERS TOTAL RETURN REALTY FUND, INC.**

## SCHEDULE OF INVESTMENTS (Continued)

December 31, 2006

		Number of Shares	Value
<b>OFFICE</b>	<b>16.9%</b>		
Brandywine Realty Trust		184,885	\$ 6,147,427
Equity Office Properties Trust		207,800	10,009,726
HRPT Properties Trust		107,300	1,325,155
Kilroy Realty Corp.		27,000	2,106,000
Mack-Cali Realty Corp.		131,100	6,686,100
Maguire Properties		93,000	3,720,000
Mapeley Ltd. (United Kingdom)		10,300	800,646
			30,795,054
<b>OFFICE/INDUSTRIAL</b>	<b>4.0%</b>		
Liberty Property Trust		129,200	6,348,888
Parkway Properties		19,100	974,291
			7,323,179
<b>RESIDENTIAL APARTMENT</b>	<b>16.8%</b>		
American Campus Communities		53,869	1,533,650
Apartment Investment & Management Co.		23,100	1,294,062
Archstone-Smith Trust		92,361	5,376,334
AvalonBay Communities		59,400	7,724,970
Camden Property Trust		53,500	3,950,975
Education Realty Trust		58,400	862,568
GMH Communities Trust		49,900	506,485
Home Properties		75,800	4,492,666
Mid-America Apartment Communities		33,100	1,894,644
United Dominion Realty Trust		93,400	2,969,186
			30,605,540
<b>SELF STORAGE</b>	<b>1.9%</b>		
Extra Space Storage		56,300	1,028,038
Sovran Self Storage		24,300	1,391,904
U-Store-It Trust		53,100	1,091,205
			3,511,147

See accompanying notes to financial statements.

**COHEN & STEERS TOTAL RETURN REALTY FUND, INC.**

## SCHEDULE OF INVESTMENTS (Continued)

December 31, 2006

		Number of Shares	Value
SHOPPING CENTER	8.7%		
COMMUNITY CENTER	2.2%		
Cedar Shopping Centers		90,200	\$ 1,435,082
Inland Real Estate Corp.		55,300	1,035,216
Urstadt Biddle Properties Class A		86,600	1,653,194
			4,123,492
REGIONAL MALL	6.5%		
Glimcher Realty Trust		95,500	2,550,805
Macerich Co.		107,500	9,306,275
			11,857,080
TOTAL SHOPPING CENTER			15,980,572
TOTAL COMMON STOCK			
(Identified cost \$69,061,510)			145,563,010
PREFERRED STOCK	19.2%		
DIVERSIFIED	2.3%		
Colonial Properties Trust, 8.125%, Series D		14,600	