COHEN & STEERS TOTAL RETURN REALTY FUND INC
Form N-CSR
March 08, 2013

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)

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, 2012

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, 2012. The net asset value (NAV) at that date was $12.98 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 $14.72.

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

	Six Months Ended December 31, 2012	Year Ended December 31, 2012
Cohen & Steers Total Return Realty Fund at NAV[a]	2.73%	16.66%
Cohen & Steers Total Return Realty Fund at Market[a]	18.70%	36.74%
FTSE NAREIT Equity REIT Index[b]	2.74%	18.06%
Blended benchmark 80% FTSE NAREIT Equity REIT Index, 20% BofA Merrill Lynch REIT Preferred Index[b]	2.52%	15.74%
S&P 500 Index[b]	5.95%	16.00%

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 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 Total Return 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 long-term

[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 Index is an unmanaged index of real estate preferred securities. The S&P 500 Index is an unmanaged index of common stocks that is frequently used as a general measure of stock market

performance.

1

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

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 $0.22 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 forseeable 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. 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 index, which does not use fair value pricing.

Investment Review

U.S. real estate securities had strong absolute performance in 2012 and outperformed the wider equity market for the fourth consecutive year. REITs continued to benefit from modest demand growth and scant new supply creation within a slowly recovering domestic economy. These fundamentals generally allowed for increases in rents that contributed to rising cash flows for landlords. As the Federal Reserve kept interest rates low while expanding the monetary base, REITs' funding costs declined across the quality spectrum, resulting in improved balance sheets and greater access to capital. In this environment, a number of real estate companies were able to make accretive property acquisitions.

Performance was positive for all property types, led by industrial (total return of 31.3% in the index[c]), regional mall (28.2%) and shopping center (25.0%) owners. These sectors benefited from strong demand from retailers as consumer spending improved, aided by early signs of a recovery in the housing market. Within the industrial sector, Prologis was a standout, rebounding sharply from a

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

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

decline in 2011. The company reported solid revenue growth due to occupancy gains, including surprising resiliency in its European assets.

Simon Property Group was a leader among regional mall companies, as it continued to exhibit solid leasing execution. Simon also remained active on the deal front, including taking a 29% stake in Klépierre, a French retail landlord. The company quickly funded the $3 billion transaction through a capital raising via issuance of equity and unsecured debt. General Growth Properties was another strong performer, lifted by speculation that the mall operator could be an acquisition candidate.

The office sector (14.2%) was restrained by a softer demand outlook, particularly in Washington, D.C. and New York, which were overshadowed by uncertainty in the government and financial sectors, respectively. These worries also weighed on Vornado Realty in the diversified property sector (12.2%), as the company owns offices in both markets.

The apartment sector (6.9%) underperformed after a strong run in recent years, as investors took profits anticipating that an improving housing market could lessen the demand for rental units. Despite these concerns, operating fundamentals for apartments continued at a solid pace, as continued job growth and climbing rent and occupancy levels drove strong revenue growth.

In apartment news, Equity Residential and AvalonBay Communities announced in November that they would purchase apartment building owner Archstone in a $16.3 billion transaction. Expectations of an IPO by Archstone had weighed on the apartment sector. The deal removed this concern, but introduced a new overhang from the $3.8 billion in equity the companies will issue as part of the acquisition. Taking a long-term view, we believe the transaction will prove beneficial for both acquirers.

REIT preferred securities also advanced

Preferred securities issued by REITs had a total return of 6.3% in the period as measured by the BofA Merrill Lynch REIT Preferred Index. The group was aided by the factors that lifted real estate common shares (relatively stable and visible cash flows and a low cost of capital), and by demand for quality income in a low-yield environment.

Fund performance

The Fund had a positive total return and outperformed its blended benchmark for the period. Factors that aided relative performance based on NAV included favorable security selection within the Fund's allocation to REIT preferreds. With regard to common stocks, performance was helped by security selection in the office and shopping center sectors.

Our overweight in apartment stocks detracted from relative performance. Our underweight in health care property companies (20.4% total return in the index) also hindered relative performance, although favorable stock selection in the sector partly offset the effect.

The Fund employed a modest covered call option overlay strategy to enhance the portfolio's income. This strategy did not have a material effect on the Fund's performance.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

Investment Outlook

U.S. REITs continue to exhibit strong access to capital, and have been using this access to issue equity and debt at historically low rates. We believe the combination of continued low financing costs and very limited new supply will enable companies to see continued cash flow growth, as long as the economy remains on its path of modest expansion. In our view, slow but steady advances in GDP can prevail in 2013; however, with the tax-related portion of the "fiscal cliff" having been settled for now, federal spending negotiations will be a source of uncertainty and we are closely monitoring developments.

With most U.S. REITs trading near parity to net asset values, our focus is on companies with valuations that, in our view, do not reflect their strong cash flow growth potential. Among property sectors, we continue to like Class A malls, self-storage, well-positioned industrial assets and offices on the West Coast. We have also added incrementally to companies that we believe are likely to benefit from the housing recovery and potential cap-rate compression. Furthermore, we retain a favorable outlook on apartment REITs, as we believe that new-home construction will not be strong enough to absorb increasing demand for rental units, provided that job creation and household formation continue to improve.

With respect to REIT preferred securities, we believe real estate credit fundamentals will remain favorable, which should continue to support preferred prices. While we see some scope for price appreciation, we continue to expect the majority of total returns to come from income, given the relative scarcity of call protection on REIT preferreds and security prices that, in many cases, are at or above par.

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*	JASON YABLON *Portfolio Manager*

The views and opinions in the preceding commentary are subject to change 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 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, commodities, global natural resource equities, listed infrastructure, utilities, large cap value and preferred securities sectors.

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 TOTAL RETURN REALTY FUND, INC.

December 31, 2012
Top Ten Holdings
(Unaudited)

Security	Value	% of Net Assets
Simon Property Group	$12,434,885	10.0
Ventas	5,975,986	4.8
Vornado Realty Trust	5,634,429	4.5
Prologis	5,592,202	4.5
Equity Residential	5,567,317	4.5
Public Storage	4,438,675	3.6
HCP	4,363,710	3.5
SL Green Realty Corp.	2,726,057	2.2
General Growth Properties	2,528,473	2.0
AvalonBay Communities	2,505,432	2.0

Sector Breakdown

(Based on Net Assets)
(Unaudited)

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS

December 31, 2012

		Number of Shares	Value
COMMON STOCK REAL ESTATE	79.8%		
DIVERSIFIED	7.4%		
American Assets Trust		33,170	$ 926,438
Colony Financial		46,900	914,550
Coresite Realty Corp.		19,200	531,072
Forest City Enterprises, Class A[a]		34,100	550,715
Societe Fonciere Lyonnaise SA (France)[b]		14,100	662,533
Vornado Realty Trust		70,360	5,634,429
			9,219,737
HEALTH CARE	8.3%		
HCP		96,585	4,363,710
Ventas		92,336	5,975,986
			10,339,696
HOTEL	5.2%		
Hersha Hospitality Trust		311,307	1,556,535
Host Hotels & Resorts		72,943	1,143,017
Hyatt Hotels Corp., Class A[a]		28,742	1,108,579
Pebblebrook Hotel Trust		30,800	711,480
Starwood Hotels & Resorts Worldwide		17,100	980,856
Strategic Hotels & Resorts Worldwide[a]		145,788	933,043
			6,433,510
INDUSTRIALS	5.7%		
DCT Industrial Trust		135,853	881,686
First Industrial Realty Trust[a]		30,442	428,623
First Potomac Realty Trust		11,289	139,532
Prologis		153,253	5,592,202
			7,042,043

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2012

		Number of Shares	Value
OFFICE	11.3%		
Boston Properties		23,117	$ 2,446,010
Brookfield Office Properties (Canada)		22,961	390,566
Corporate Office Properties Trust		34,656	865,707
Douglas Emmett		63,416	1,477,593
Highwoods Properties		38,600	1,291,170
Hudson Pacific Properties		101,754	2,142,939
Kilroy Realty Corp.		13,659	647,027
Parkway Properties		70,200	982,098
SL Green Realty Corp.		35,565	2,726,057
Washington REIT		38,972	1,019,118
			13,988,285
OFFICE/INDUSTRIAL	0.6%		
PS Business Parks		11,803	766,959
RESIDENTIAL APARTMENT	14.6%		
American Campus Communities		13,950	643,514
Apartment Investment & Management Co.		86,444	2,339,175
AvalonBay Communities		18,478	2,505,432
Colonial Properties Trust		71,600	1,530,092
Education Realty Trust		77,988	829,792
Equity Residential		98,241	5,567,317
Essex Property Trust		8,300	1,217,195
Mid-America Apartment Communities		20,254	1,311,446
UDR		89,984	2,139,820
			18,083,783
SELF STORAGE	5.1%		
CubeSmart		50,400	734,328
Public Storage		30,620	4,438,675
Sovran Self Storage		19,300	1,198,530
			6,371,533

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2012

		Number of Shares	Value
SHOPPING CENTERS	20.0%		
COMMUNITY CENTER	6.6%		
Acadia Realty Trust		36,898	$ 925,402
DDR Corp.		122,100	1,912,086
Federal Realty Investment Trust		6,200	644,924
Kimco Realty Corp.		66,500	1,284,780
Ramco-Gershenson Properties Trust		52,786	702,582
Regency Centers Corp.		51,138	2,409,622
Tanger Factory Outlet Centers		8,865	303,183
			8,182,579
REGIONAL MALL	13.4%		
CBL & Associates Properties		15,145	321,226
General Growth Properties		127,379	2,528,473
Glimcher Realty Trust		119,200	1,321,928
Simon Property Group		78,657	12,434,885
			16,606,512
TOTAL SHOPPING CENTERS			24,789,091
SPECIALTY	1.6%		
Digital Realty Trust		24,620	1,671,452
DuPont Fabros Technology		14,900	359,984
			2,031,436
TOTAL COMMON STOCK (Identified cost $71,015,210)			99,066,073
PREFERRED SECURITIES $25 PAR VALUE	15.2%		
BANKS	0.6%		
Ally Financial, 7.375%, due 12/16/44		30,000	746,400
BANKS FOREIGN	0.3%		
National Westminster Bank PLC, 7.76%, Series C (United Kingdom)		13,358	331,011
INSURANCE MULTI-LINE FOREIGN	0.3%		
ING Groep N.V., 7.375% (Netherlands)		15,000	374,850

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2012

		Number of Shares	Value
REAL ESTATE	14.0%		
DIVERSIFIED	4.8%		
Capital Lease Funding, 8.125%, Series A		20,000	$ 500,600
Colony Financial, 8.50%, Series A		20,000	522,600
Cousins Properties, 7.75%, Series A		26,725	675,608
DuPont Fabros Technology, 7.875%, Series A		20,000	531,600
DuPont Fabros Technology, 7.625%, Series B		20,000	533,400
EPR Properties, 9.00%, Series E (Convertible)		20,000	593,000
Forest City Enterprises, 7.375%, due 2/1/34		38,000	925,680
Lexington Realty Trust, 6.50%, Series C ($50 Par Value)		22,800	1,086,648
Lexington Realty Trust, 7.55%, Series D		16,500	412,665
Urstadt Biddle Properties, 7.125%, Series F		8,800	228,712
			6,010,513
HOTEL	3.5%		
Ashford Hospitality Trust, 9.00%, Series E		30,000	804,000
Chesapeake Lodging Trust, 7.75%, Series A		20,000	529,600
Hersha Hospitality Trust, 8.00%, Series B		25,000	633,750
Hospitality Properties Trust, 7.125%, Series D		10,000	266,000
Pebblebrook Hotel Trust, 7.875%, Series A		35,000	906,850
Strategic Hotels & Resorts, 8.25%, Series B		20,000	500,000
Sunstone Hotel Investors, 8.00%, Series D		25,000	637,750
			4,277,950
INDUSTRIALS	1.2%		
First Potomac Realty Trust, 7.75%, Series A		15,000	385,050
		20,000	519,600

Monmouth Real Estate Investment Corp., 7.875%, Series B[c]			
Prologis, 6.75%, Series R		25,000	631,250
			1,535,900
OFFICE	0.2%		
Hudson Pacific Properties, 8.375%, Series B		8,500	227,503

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2012

		Number of Shares	Value
RESIDENTIAL	0.8%		
APARTMENT	0.4%		
Alexandria Real Estate Equities, 7.00%, Series D		19,000	$ 508,250
MANUFACTURED HOME	0.4%		
Equity Lifestyle Properties, 6.75%, Series C		19,060	490,604
TOTAL RESIDENTIAL			998,854
SHOPPING CENTERS	3.5%		
COMMUNITY CENTER	1.9%		
Cedar Realty Trust, 7.25%, Series B		20,000	489,000
DDR Corp., 7.375%, Series H		19,900	498,097
DDR Corp., 6.50%, Series J		25,200	616,392
Kite Realty Group Trust, 8.25%, Series A		10,000	256,500
Ramco-Gershenson Properties Trust, 7.25%, Series D ($50 Par Value)(Convertible)		10,000	538,600
			2,398,589
REGIONAL MALL	1.6%		
CBL & Associates Properties, 7.375%, Series D		49,998	1,252,450
Pennsylvania REIT, 8.25%, Series A		25,000	657,000
			1,909,450
TOTAL SHOPPING CENTERS			4,308,039
TOTAL REAL ESTATE			17,358,759
TOTAL PREFERRED SECURITIES $25 PAR VALUE (Identified cost $16,622,931)			18,811,020
PREFERRED SECURITIES CAPITAL SECURITIES	1.2%		
BANKS	0.5%		
Farm Credit Bank of Texas, 10.00%, due 12/15/20, Series I		500	624,219
BANKS FOREIGN	0.2%		
Barclays Bank PLC, 7.625%, due 11/21/22 (United Kingdom)		250,000	250,313
INSURANCE MULTI-LINE	0.5%		

American International Group, 8.175%, due 5/15/58, (FRN)	500,000	653,750
TOTAL PREFERRED SECURITIES CAPITAL SECURITIES (Identified cost $1,280,923)		1,528,282

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2012

		Principal Amount	Value
CORPORATE BONDS	1.7%		
INSURANCE PROPERTY CASUALTY	0.3%		
Liberty Mutual Insurance, 7.697%, due 10/15/97, 144A[d]			