COHEN & STEERS TOTAL RETURN REALTY FUND INC
Form N-CSR
March 03, 2008

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 10017
(Address of principal executive offices) (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, 2007

Item 1. Reports to Stockholders.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

February 8, 2008

To Our Shareholders:

We are pleased to submit to you our report for the year ended December 31, 2007. The net asset value at that date was $13.93 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 $13.19. The total return, including income, for the fund and the comparative benchmarks were:

	Six Months Ended December 31, 2007	Year Ended December 31, 2007
Cohen & Steers Total Return Realty Fund at Market Value[a]	12.94%	22.60%
Cohen & Steers Total Return Realty Fund at Net Asset Value[a]	11.28%	15.92%
FTSE NAREIT Equity REIT Index[b]	10.42%	15.69%
S&P 500 Index[b]	1.37%	5.49%
Blended Index 80% FTSE NAREIT Equity REIT Index[b], 20% Merrill Lynch REIT Preferred Index[b]	10.94%	14.99%

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 gain distribution of $1.35 per share was declared for shareholders of record on December 26, 2007 and was paid on December 31, 2007.

Three monthly dividends of $0.1125 per common share were declared and will be paid to common shareholders on January 31, 2008, February 29, 2008 and March 31, 2008[c].

[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 a turbulent one for REITs, which suffered a decline after four straight years of double-digit gains and seven years of positive total returns. As the year began, real estate securities continued to be buoyed by a number of factors. The economy was strong, driving growth in demand for commercial real estate. New supply of competitive commercial real estate product was relatively muted, despite real estate being in a mature stage of its cycle. Debt markets were highly liquid and accommodative of real estate M&A activity, including leveraged buyouts (LBOs). This was highlighted in January by a bidding contest for Equity Office Properties, which was acquired by The Blackstone Group in a $41 billion transaction, at a 24% premium to the market price when the offer was first made.

REITs disproportionately hit by credit woes

While real estate fundamentals did stay generally healthy through the year, concerns over subprime mortgages began to mount, resulting in a general re-pricing of risk and a dramatic widening of credit spreads in July. Commercial banks, seeking to preserve capital to offset losses from a variety of financial instruments, became reluctant to lend. Loans to finance LBOs stopped abruptly, removing a positive catalyst for the REIT market (REITs had been a prime target of private equity investors). In addition, the credit crunch increased the possibility of a U.S. economic recession, fueling worries over underlying fundamentals for real estate.

Real estate securities, which had reached an all-time high in February 2007, declined more than 20% from that peak by August. REITs were volatile over the remainder of the year, as investors reacted to monetary news (the Federal Reserve reduced interest rates from 5.25% to 4.25% between September and the end of the year) and the latest unsettling credit news.

Most property sectors declined in the year. Amid the economic and financial uncertainty, the best performers were generally sectors with longer leases such as health care (which had a total return of +2.1% in 2007). The industrial sector (+0.4%) also had a positive total return, benefiting from strong global trade and demand for warehouse space. Apartments (25.4%) had a sizable decline, reflecting their shorter duration leases and concerns over a rise in single-family homes available for rent. The office sector (19.0%) also underperformed, amid fears that unemployment would rise, particularly in markets with high concentrations of financial services tenants.

Preferred securities suffer their worst year ever

Preferred securities had their poorest yearly performance on record in 2007, reflecting a surge in issuance that drove down prices in the secondary market. Faced with diminished capital and increased balance-sheet risk, numerous financial institutions sought to recapitalize themselves in the preferred market instead of the equity market, where financial shares were trading at several-year lows. In contrast, the supply of new REIT preferreds evaporated before mid-year as this avenue of funding became much more expensive, and as REIT balance-sheet growth slowed.

Fears of a slowing economy and sagging investor confidence particularly weighed on the performance of preferreds issued by mortgage REITs, as well as certain shopping center, apartment and lodging companies. Total returns for preferreds issued by companies in the storage and health care sectors, which are viewed as defensive, provided some relief and stability within the REIT preferred market.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

Portfolio performance

The fund's common stock REITs underperformed the NAREIT index. This reflected the broad underperformance of the higher-yield REITs targeted by the fund as part of its income objective. These stocks tend to represent companies in secondary markets with less restrained supply, leaving them more vulnerable to rising cap rates. In this environment, stock selection was a detractor in many sectors, in particular the office, shopping center, diversified and regional mall sectors. Our underweight in the industrial and specialty sectors also detracted from performance. Stock selection in the health care and hotel sectors helped performance, as did our overweight in health care and underweight in hotels.

The fund had a small (3%) allocation to the common stock of commercial mortgage companies, which detracted from performance. These holdings had sizable declines as investors sold anything associated with mortgages, despite continued low and stable default rates for commercial mortgages. Security selection with respect to REIT preferreds was relatively favorable as our preferred holdings outperformed the broader REIT preferred market.

In 2007, the fund's market price total return lagged its net asset value total return. Closed-end fund share prices were negatively affected by the turbulence in the credit markets and concerns about leverage.

Investment Outlook

Real estate securities, which had factored in a good deal of positive news at the start of the year, ended 2007 with considerable pessimism priced into their shares. Overall, REITs were trading at an 18% discount to their underlying net asset value as of December 31, 2007, compared with a premium of 13% at the end of 2006, and compared with a historical average premium of 5%. The size of this discount suggests to us that the market is expecting at least a mild recession and perhaps a meaningful decline in property values. Our view is that the economy will slow, with some possibility of it dipping into a shallow recession, before reaccelerating as monetary actions take hold. We have already factored modest declines into property asset values due to higher cap rates, particularly for class B properties and secondary markets, but we do not expect a dramatic downturn.

REITs more attractive than stocks generally

In the wake of a difficult year, we believe that REITs have improved return prospects for 2008. The group's projected earnings growth is higher than projections for the S&P 500 Index, yet REIT earnings are far less volatile than the average S&P 500 company. In addition, at 14.5 times forward earnings, REITs have a lower P/E ratio than the S&P 500 (16.3x) while their dividend yield is higher (4.9% vs. 2.0%). REIT dividend yields also compared favorably with the 10-year Treasury bond's 4.0% yield at the end of 2007. In an uncertain environment, investors could find these metrics appealing.

With regard to fundamentals, we believe that modest levels of employment growth stand to support demand for sectors such as offices, apartments and hotels, yet new supply is likely to be quite restrained due to the lack of credit for construction loans. Of course, ongoing credit woes could continue to hamper REITs and stocks broadly, but we believe they are positioned to perform well once investors sense that the worst of the credit news is behind us. In this environment, we remain highly focused on companies with strong managements, compelling long-term business models and properties in the most desirable locations.

REIT preferreds may be volatile

The REIT preferred sector will likely remain volatile until the full effect of the financial market credit crisis is disclosed and absorbed. In the meantime, we intend to focus on investments in companies that are less subject to balance sheet-driven volatility or a slowing economy that may slip into recession. Overall, we remain focused on high-quality issuers with strong fundamentals and attractive income streams. While such companies exist in all segments of the market, we particularly favor health care, storage and select office companies at this time.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

Sincerely,

MARTIN COHEN	ROBERT H. STEERS
Co-chairman	*Co-chairman*
JOSEPH M. HARVEY	JAMES S. CORL
Portfolio Manager	*Portfolio Manager*
WILLIAM F. SCAPELL	THOMAS N. BOHJALIAN
Portfolio Manager	*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.

Visit Cohen & Steers online at cohenandsteers.com

For more information about any of our funds, visit 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, 2007

Top Ten Holdings[a]
(Unaudited)

Security	Market Value	% of Net Assets
Ventas	$ 9,577,117	7.4%
Macerich Co.	7,425,770	5.8
Vornado Realty Trust	7,414,185	5.8
Boston Properties	5,866,659	4.6
AvalonBay Communities	5,591,916	4.3
HCP	5,168,308	4.0
Nationwide Health Properties	4,934,501	3.8
Mack-Cali Realty Corp.	4,219,400	3.3
Liberty Property Trust	3,722,252	2.9
Home Properties	3,668,730	2.8

[a] Top ten holdings are determined on the basis of the market 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, 2007

		Number of Shares	Value
COMMON STOCK	82.5%		
DIVERSIFIED	7.6%		
Colonial Properties Trust		26,107	$ 590,801
Land Securities Group PLC (United Kingdom)		13,800	413,703
Unibail-Rodamco (France)		6,400	1,402,820
Vornado Realty Trust		84,300	7,414,185
			9,821,509
HEALTH CARE	19.2%		
HCP		148,600	5,168,308
Health Care REIT		27,600	1,233,444
Nationwide Health Properties		157,300	4,934,501
Omega Healthcare Investors		44,500	714,225
Senior Housing Properties Trust		135,228	3,066,971
Ventas		211,649	9,577,117
			24,694,566
HOTEL	3.6%		
DiamondRock Hospitality Co.		99,100	1,484,518
Hospitality Properties Trust		51,700	1,665,774
Strategic Hotels & Resorts		86,700	1,450,491
			4,600,783
INDUSTRIAL	1.5%		
EastGroup Properties		16,100	673,785
ING Industrial Fund (Australia)		419,302	935,147
Segro PLC (United Kingdom)		28,683	268,353
			1,877,285
MORTGAGE	0.5%		
Annaly Capital Management		36,255	659,116

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2007

		Number of Shares	Value
OFFICE	17.2%		
BioMed Realty Trust		67,957	$ 1,574,563
Boston Properties		63,900	5,866,659
Brandywine Realty Trust		143,885	2,579,858
Derwent London PLC (United Kingdom)		24,400	686,789
ING Office Fund (Australia)		662,257	942,022
Kilroy Realty Corp.		27,000	1,483,920
Mack-Cali Realty Corp.		124,100	4,219,400
Maguire Properties		99,100	2,920,477
Parkway Properties		18,900	698,922
SL Green Realty Corp.		13,004	1,215,354
			22,187,964
OFFICE/INDUSTRIAL	2.9%		
Liberty Property Trust		129,200	3,722,252
RESIDENTIAL APARTMENT	14.8%		
American Campus Communities		48,969	1,314,818
Apartment Investment & Management Co.		50,500	1,753,865
AvalonBay Communities		59,400	5,591,916
Camden Property Trust		53,500	2,576,025
Education Realty Trust		62,100	698,004
Home Properties		81,800	3,668,730
Mid-America Apartment Communities		40,400	1,727,100
UDR		87,400	1,734,890
			19,065,348
SELF STORAGE	2.2%		
Extra Space Storage		104,800	1,497,592
Sovran Self Storage		33,400	1,339,340
			2,836,932

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2007

		Number of Shares	Value
SHOPPING CENTER	12.2%		
COMMUNITY CENTER	4.5%		
Cedar Shopping Centers		57,300	$ 586,179
Developers Diversified Realty Corp.		75,300	2,883,237
Inland Real Estate Corp.		55,300	783,048
Urstadt Biddle Properties Class A		102,700	1,591,850
			5,844,314
REGIONAL MALL	7.7%		
General Growth Properties		28,246	1,163,170
Glimcher Realty Trust		91,200	1,303,248
Macerich Co.		104,500	7,425,770
			9,892,188
TOTAL SHOPPING CENTER			15,736,502
SPECIALTY			