COHEN & STEERS QUALITY INCOME REALTY FUND INC
Form N-2
July 17, 2003

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 17, 2003

SECURITIES ACT FILE NO. 333-

INVESTMENT COMPANY ACT FILE NO. 811-10481

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-2

(CHECK APPROPRIATE BOX OR BOXES)

[x] REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

[ ] PRE-EFFECTIVE AMENDMENT NO.

[ ] POST-EFFECTIVE AMENDMENT NO.

AND/OR

[x] REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

[x] AMENDMENT NO. 7

COHEN & STEERS
QUALITY INCOME REALTY FUND, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

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757 THIRD AVENUE
NEW YORK, NEW YORK 10017
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (212) 832-3232

ROBERT H. STEERS
COHEN & STEERS CAPITAL MANAGEMENT, INC.
757 THIRD AVENUE
NEW YORK, NEW YORK 10017
(212) 832-3232
(NAME AND ADDRESS OF AGENT FOR SERVICE)

WITH COPIES TO:

SARAH E. COGAN, ESQ.
SIMPSON THACHER & BARTLETT
425 LEXINGTON AVENUE
NEW YORK, NEW YORK 10017

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. [ ]

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

TITLE OF SECURITIES BEING REGISTERED	AMOUNT BEING REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT O
Series [ ] Preferred Shares, par value $0.001.............................	40	$25,000	$1,000,000	

(1) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATES AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

THIS FILING CONTAINS ONLY THE EXHIBITS THAT HAVE NOT BEEN PREVIOUSLY FILED.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.
FORM N-2 REFERENCE SHEET
PART A -- PROSPECTUS

	ITEM IN PART A OF FORM N-2 SPECIFIED IN PROSPECTUS	LOCATION IN PROSPECTUS
Item 1.	Outside Front Cover..................................	Cover Page
Item 2.	Inside Front and Outside Back Cover Page............	Cover Page; Inside Front Cove Page; Outside Back Cover Pa
Item 3.	Fee Table and Synopsis..............................	Inapplicable
Item 4.	Financial Highlights................................	Financial Highlights
Item 5.	Plan of Distribution................................	Cover Page; Prospectus Summar Underwriting
Item 6.	Selling Shareholders................................	Inapplicable
Item 7.	Use of Proceeds.....................................	Use of Proceeds; Investment Objectives and Policies
Item 8.	General Description of the Registrant...............	Cover Page; Prospectus Summar The Fund; Investment Object and Policies; Risk Factors; the Fund Manages Risk
Item 9.	Management..	Prospectus Summary; Managemen the Fund; How the Fund Mana Risk
Item 10.	Capital Stock, Long-term Debt, and Other Securities...	Capitalization; Investment Objectives and Policies; Fe Taxation; Description of Preferred Shares; Descripti Common Shares
Item 11.	Defaults and Arrears on Senior Securities...........	Inapplicable
Item 12.	Legal Proceedings...................................	Inapplicable
Item 13.	Table of Contents of the Statement of Additional Information..	Table of Contents of the Stat of Additional Information

PART B -- STATEMENT OF ADDITIONAL INFORMATION

	ITEMS IN PART B OF FORM N-2	LOCATION IN STATEMENT OF ADDITIONAL INFORMATION
Item 14.	Cover Page..	Cover Page
Item 15.	Table of Contents...................................	Table of Contents
Item 16.	General Information and History.....................	General Information
Item 17.	Investment Objectives and Policies..................	Additional Information about Investment Objectives and Policies; Investment Restrictions
Item 18.	Management..	Management of the Fund; Compensation of Directors
Item 19.	Control Persons and Principal Holders of Securities...	Management of the Fund
Item 20.	Investment Advisory and Other Services..............	Investment Advisory and Other Services
Item 21.	Brokerage Allocation and Other Practices............	Portfolio Transactions and

PART C -- OTHER INFORMATION

Item 24-33. have been answered in Part C of this Registration Statement

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

COHEN & STEERS
QUALITY INCOME REALTY FUND

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COHEN & STEERS
QUALITY INCOME REALTY FUND, INC.
AUCTION RATE PREFERRED SHARES
SHARES, SERIES [ ]
LIQUIDATION PREFERENCE $25,000 PER SHARE

Cohen & Steers Quality Income Realty Fund, Inc. (the 'Fund') is offering Series Auction Rate Preferred Shares. The shares are referred to in this prospectus as 'Preferred Shares'. The Fund is a recently organized, non-diversified, closed-end management investment company. Our primary investment objective is high current income through investment in real estate securities and our secondary investment objective is capital appreciation. Under normal market conditions, we will invest at least 90% of our total assets in common stocks, preferred stocks and other equity securities issued by real estate companies, such as 'real estate investment trusts' ('REITs'). At least 80% of our total assets will be invested in income producing equity securities issued by high quality REITs. We may invest up to 10% of our total assets in debt

(continued on following page)

INVESTING IN PREFERRED SHARES INVOLVES RISKS. SEE 'RISK FACTORS' BEGINNING ON PAGE 22 OF THIS PROSPECTUS. THE MINIMUM PURCHASE AMOUNT OF THE PREFERRED SHARES IS $25,000.

	PER SHARE	TOTAL
Public offering price......................................	$25,000	$
Sales load...	$	$
Proceeds to the Fund(1)....................................	$	$

(1) Not including offering expenses payable by the Fund estimated to be $.

The public offering price per share will be increased by the amount of dividends, if any, that have accumulated from the date the Preferred Shares are first issued.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters are offering the Preferred Shares subject to various conditions. The Preferred Shares will be ready for delivery in book-entry form only through the facilities of The Depository Trust Company, on or about , 2003.

The date of this prospectus is , 2003.

securities issued or guaranteed by real estate companies. We will not invest more than 20% of our total assets in non-investment grade preferred stock or debt securities (commonly known as 'junk bonds'). There can be no assurance that we will achieve our investment objectives. See 'Investment Objectives and Policies.' The Fund's investment manager is Cohen & Steers Capital Management, Inc.

Investors in the Preferred Shares will be entitled to receive cash dividends at an annual rate that may vary for the successive dividend periods for the Preferred Shares. Preferred Shares have a liquidation preference of $25,000 per share, plus any accumulated, unpaid dividends. Preferred Shares also have priority over the Fund's common shares as to distribution of assets as described in this Prospectus. See 'Description of Preferred Shares.' As of , 2003, the Fund has outstanding shares of four other series of preferred stock -- Series T AMPS, par value $0.001 per share (the 'Series T AMPS'), Series W AMPS, par value $0.001 per share (the 'Series W AMPS'), Series TH AMPS, par value $0.001 per share (the 'Series TH AMPS') and Series F AMPS, par value $0.001 per share (the 'Series F AMPS'). 'AMPS' refers to Taxable Auction Market Preferred Shares and is a registered service mark of Merrill Lynch & Co., Inc. The Preferred Shares offered in this Prospectus rank on a parity with the Series T AMPS, Series W AMPS, Series TH AMPS and Series F AMPS with respect to dividends and liquidation preference. The Preferred Shares have priority over the Fund's common shares as to dividends and distribution of assets as described in this Prospectus. See 'Description of Preferred Shares'. The dividend rate for the initial dividend period will be % for the Preferred Shares. The initial dividend period is from the date of issuance through , 2003 for the Preferred Shares. For subsequent dividend periods, the Preferred Shares will pay dividends based on a rate set at auction, usually held every seven days. Prospective purchasers should note: (1) a buy order (called a 'bid order') or sell order is a commitment to buy or sell the Preferred Shares based on the results of an auction; and (2) purchases and sales will be settled on the next business day after the auction. Investors may only buy or sell the Preferred Shares through an order placed at an auction with or through a broker-dealer in accordance with the procedures specified in this Prospectus. Broker-dealers are not required to maintain a secondary market in the Preferred Shares, and a secondary market may not provide you with liquidity. The Fund may redeem the Preferred Shares as described under 'Description of Preferred Shares -- Redemption.'

The Preferred Shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

The Preferred Shares will be senior to the Fund's outstanding common shares. The Preferred Shares are not listed on an exchange. The Fund's common shares are traded on the New York Stock Exchange (the 'NYSE') under the symbol 'RQI.' It is a condition of closing this offering that the Preferred Shares be offered with a rating of 'AAA' from Standard & Poor's Ratings Services ('S&P') and of 'Aaa' from Moody's Investors Service, Inc. ('Moody's').

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS. NEITHER THE FUND NOR THE UNDERWRITERS HAVE AUTHORIZED ANY OTHER PERSON TO PROVIDE YOU WITH DIFFERENT INFORMATION. IF ANYONE PROVIDES YOU WITH DIFFERENT OR INCONSISTENT INFORMATION, YOU SHOULD NOT RELY ON IT. NEITHER THE FUND NOR THE UNDERWRITERS ARE MAKING AN OFFER TO SELL THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. YOU SHOULD ASSUME THAT THE INFORMATION APPEARING IN THIS PROSPECTUS IS ACCURATE AS OF THE DATE ON THE FRONT COVER OF THIS PROSPECTUS ONLY. THE FUND'S BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS MAY HAVE CHANGED SINCE THAT DATE.

THIS PROSPECTUS SETS FORTH CONCISELY INFORMATION ABOUT THE FUND YOU SHOULD KNOW BEFORE INVESTING. YOU SHOULD READ THE PROSPECTUS BEFORE DECIDING WHETHER TO INVEST AND RETAIN IT FOR FUTURE REFERENCE. A STATEMENT OF ADDITIONAL INFORMATION, DATED , 2003 (THE 'SAI'), CONTAINING ADDITIONAL INFORMATION ABOUT THE FUND, HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ('SEC') AND IS INCORPORATED BY REFERENCE INTO (WHICH MEANS IT IS CONSIDERED PART OF) THIS PROSPECTUS. YOU CAN REVIEW THE TABLE OF CONTENTS OF THE SAI ON PAGE 50 OF THIS PROSPECTUS. YOU MAY REQUEST A FREE COPY OF THE SAI BY CALLING (800) 437-9912. YOU MAY ALSO OBTAIN THE SAI AND OTHER INFORMATION REGARDING THE FUND ON THE SEC WEB SITE (HTTP://WWW.SEC.GOV).

THROUGH AND INCLUDING , 2003, ALL DEALERS EFFECTING TRANSACTIONS IN THESE SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

PROSPECTUS SUMMARY

This is only a summary. This summary does not contain all of the information that you should consider before investing in AMPS. You should review the more detailed information contained in this Prospectus and in the Statement of Additional Information (the 'SAI'), especially the information set forth under the heading 'Risk Factors.'

THE FUND....................................	The Cohen & Steers Quality Income Realty Fund, Inc (the 'Fund') is a recently organized, non-diversified, closed-end management investment company. The Fund was organized as a Maryland corporation on August 22, 2001 and is registered under the Investment Company Act of 1940, as amend (the '1940 Act'). The Fund commenced investment operations on February 28, 2002 upon the closing o an initial public offering of 34,000,000 common shares, par value $0.001 per share ('Common Shares The Fund issued 2,800 Series T AMPS, 2,800 Series AMPS, 2,800 Series TH AMPS and 2,800 Series F AMPS April 4, 2002. 'AMPS' refers to Taxable Auction Market Preferred Shares and is a registered servic mark of Merrill Lynch & Co., Inc. As of , 2003, the Fund had Common Shares outstand and net assets, plus the liquidation value of the Series T, Series W, Series TH and Series F AMPS, o $. The Fund's principal office is locate at 757 Third Avenue, New York, New York 10017, and its telephone number is (212) 832-3232.
THE OFFERING................................	We are offering Series [ ] Preferred Shares, p value $0.001 (the 'Preferred Shares'), at a purcha price of $25,000 per share plus dividends, if any, that have accumulated from the date the Fund first issues the Preferred Shares. The Preferred Shares offered through a group of underwriters led by . The Preferred Shares entitle their holders to rece cash dividends at an annual rate that may vary for the successive dividend periods for the Preferred Shares. In general, except as described under ' -- Dividends and Dividend Periods' below and 'Description of Preferred Shares -- Dividends and Dividend Periods,' the dividend period for the Preferred Shares will be seven days. The auction agent will determine the dividend rate for a particular period by an auction conducted on the business day immediately prior to the start of tha rate period. See 'The Auction.'

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The Preferred Shares are not listed on an exchange Instead, investors may buy or sell the Preferred Shares in an auction by submitting orders to broker-dealers that have entered into an agreement with the auction agent and the Fund.

Generally, investors in the Preferred Shares will receive certificates representing ownership of the shares. The securities depository (The Depository Trust Company or any successor) or its nominee for the account of the investor's broker-dealer will maintain record ownership of the Preferred Shares book-entry form. An investor's broker-dealer, in turn, will maintain records of that investor's beneficial ownership of the Preferred Shares.

RATINGS.................................... The Fund will issue the Preferred Shares only if s shares have received a credit quality rating of 'A from Standard & Poor's Rating Services ('S&P') and 'Aaa' from Moody's Investors Service, Inc. ('Moody's'). These ratings are an assessment of th capacity and willingness of an issuer to pay preferred stock obligations. The ratings are not a recommendation to purchase, hold or sell those sha inasmuch as the rating does not comment as to mark price or suitability for a particular investor. Th rating agency guidelines described above also do n address the likelihood that an owner of the Prefer Shares will be able to sell such shares in an auct or otherwise. The ratings are based on current information furnished to Moody's and S&P by the Fu and the Investment Manager and information obtaine from other sources. The ratings may be changed, suspended or withdrawn from other sources in the rating agencies' discretion as a result of changes in, or the unavailability of, such information.

USE OF PROCEEDS............................ The net proceeds of the Preferred Shares will be invested in accordance with the policies set forth under 'Investment Objectives and Policies.' We estimate that the net proceeds of this offering wi be fully invested in accordance with our investmen objectives and policies within four months of the completion of this offering. We intend to invest i preferred stocks and equity securities issued by r estate companies such as REITs. Pending such investment, those proceeds may be invested

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in U.S. Government securities or high quality, short-term money market instruments.

INVESTMENT OBJECTIVES AND POLICIES..........

Our primary investment objective is high current income through investment in real estate securitie Capital appreciation is a secondary investment objective. Our investment objectives and certain investment policies are considered fundamental and may not be changed without shareholder approval. S 'Investment Objectives and Policies.'

Under normal market conditions, we will invest at least 90% of our total assets in common stocks, preferred stocks and other equity securities issue by real estate companies, such as 'real estate investment trusts' ('REITs'). At least 80% of our total assets will be invested in income producing equity securities issued by high quality REITs, an substantially all of the equity securities of real estate companies in which we intend to invest are traded on a national securities exchange or in the over-the-counter market. High quality REITs are companies that, in the opinion of the Investment Manager, offer excellent prospects for consistent, above-average revenue and earnings growth. To determine whether a company is of high quality, th Investment Manager generally looks to a strong rec of earnings growth, as well as to a company's curr ratio of debt to capital and the quality of its management. All of the REITs in which the Fund wil invest will have a market capitalization greater t $100 million. A real estate company generally deri at least 50% of its revenue from real estate or ha at least 50% of its assets in real estate. A REIT a company dedicated to owning, and usually operati income producing real estate, or to financing real estate. REITs are generally not taxed on income distributed to shareholders provided they distribu to their shareholders substantially all of their income and otherwise comply with the requirements the Internal Revenue Code of 1986, as amended (the 'Code'). As a result, REITs generally pay relative high dividends (as compared to other types of companies) and the Fund intends to use these REIT dividends in an effort to meet its objective of hi current income. We may invest up to 10% of our tot assets in debt securities issued or guaranteed by real estate companies.

It is our current intention to invest approximatel % of our total assets in common stocks of real estate companies and approximately % of our tota assets in preferred stocks of real estate companie although the actual percentage of common and preferred stocks in our investment portfolio may v over time. We will not invest more than 20% of the Fund's total assets in preferred stock or debt securities rated below investment grade (commonly known as 'junk bonds') or unrated securities of comparable quality. Preferred stock or debt securities will be considered to be investment gra if, at the time of investment, such security has a rating of 'BBB' or higher by S&P, 'Baa' or higher Moody's or an equivalent rating by a nationally recognized statistical rating agency. The Investme Manager may also invest in preferred stock or debt securities which are unrated but which, in the opinion of the Investment Manager, are determined be of equivalent quality. All of our investments w be in securities of U.S. issuers and we will generally not invest more than 10% of our total assets in the securities of one issuer. There can no assurance that our investment objectives will b achieved. See 'Investment Objectives and Policies.

INVESTMENT MANAGER.......................... Cohen & Steers Capital Management, Inc. (the 'Investment Manager') is the investment manager pursuant to an Investment Management Agreement. Th Investment Manager, which was formed in 1986, is a leading firm specializing in the management of rea estate securities portfolios and as of 2003 had approximately $ billion in assets under management. Its clients include pension plans, endowment funds and mutual funds, including some o the largest open-end and closed-end real estate funds. The Investment Manager, whose principal business address is 757 Third Avenue, New York, Ne York 10017, is also responsible for providing administrative services, and assisting the Fund wi operational needs pursuant to an administration agreement (the 'Administration Agreement'). In accordance with the terms of the Administration Agreement, the Fund has entered into an agreement with State Street Bank and Trust Company ('State Street Bank') to perform certain administrative functions subject to the supervision of the

Investment Manager (the 'Sub-Administration Agreement'). See 'Management of the Fund -- Administration and Sub-Administration Agreement.'

PRINCIPAL INVESTMENT RISKS.................. Risk is inherent in all investing. Therefore, befo investing in Preferred Shares and the Fund you sho consider certain risks carefully. The primary risk of investing in Preferred Shares are:

the Fund will not be permitted to declare dividend or other distributions with respect to your Prefe Shares or redeem your Preferred Shares unless the Fund meets certain asset coverage requirements;

if an auction fails, you may not be able to sell s or all of your Preferred Shares;

you may receive less than the price you paid for y Preferred Shares if you sell them outside of the auction, especially when market interest rates ar rising;

a rating agency could downgrade the rating assigne to the Preferred Shares, which could affect liquidity;

the Fund may be forced to redeem your Preferred Shares to meet regulatory or rating agency requirements or may voluntarily redeem your share in certain circumstances;

in certain circumstances the Fund may not earn sufficient income from its investments to pay dividends on the Preferred Shares;

the value of the Fund's investment portfolio may decline, reducing the asset coverage for the Preferred Shares; and

if an issuer of a common stock in which the Fund invests experiences financial difficulties or if issuer's preferred stock or debt security is downgraded or defaults or if an issuer in which t Fund invests is affected by other adverse market factors, there may be a negative impact on the income and/or asset value of the Fund's investmen portfolio.

In addition, although the offering of the Preferre Shares is conditioned upon receipt of ratings of 'AAA' from S&P and 'Aaa' from Moody's for the Preferred Shares, there are additional risks relat to the investment policies of the Fund, such as:

Real Estate Risks. Since we concentrate our assets the real estate industry, the Fund's investments w be closely linked to the performance of the real estate markets. Property values may fall due to increasing vacancies or declining rents resulting from economic, legal, cultural or technological developments. REIT prices also may drop because of the failure of borrowers to pay their loans and po management. Many REITs utilize leverage, which increases investment risk and could adversely affe a REIT's operations and market value in periods of rising interest rates as well as risks normally associated with debt financing. In addition, there are specific risks associated with particular sect of real estate investments such as retail, office, hotel, healthcare, and multifamily properties.

We may also invest in preferred stocks and debt securities of real estate companies. These securit also are more sensitive to changes in interest rat than common stocks. When interest rates rise, the value of preferred stocks and debt securities may fall.

Lower-Rated Securities Risk. Lower-rated preferred stock or debt securities, or equivalent unrated securities, which are commonly known as 'junk bond generally involve greater volatility of price and risk of loss of income and principal, and may be m susceptible to real or perceived adverse economic competitive industry conditions than higher grade securities. It is reasonable to expect that any adverse economic conditions could disrupt the mark for lower-rated securities, have an adverse impact the value of those securities, and adversely affec the ability of the issuers of those securities to repay principal and interest on those securities.

Market Disruption Risk. The terrorist attacks in t U.S. on September 11, 2001 had a disruptive effect the securities markets. The war in Iraq and instability in the Middle East also has resulted i recent market volatility and may have long-term effects on the U.S. and worldwide financial market and may cause further economic uncertainties in th U.S. and worldwide. The Fund does not know how lon the securities markets will continue to be affecte by these events and cannot predict the effects of war or similar events in the future on the U.S. economy and securities markets.

For further discussion of the risks associated wit investing in the Preferred Shares and the Fund, se 'Risk Factors.'

DIVIDENDS AND RATE PERIODS.................. The table below shows the dividend rates, the dividend payment dates and the number of days for initial rate periods on the Preferred Shares offer in this Prospectus. For subsequent dividend period the Preferred Shares will pay dividends based on a rate set at auctions normally held every seven day In most instances, dividends are payable on the fi business day following the end of the rate period. The rate set at auction will not exceed the applicable maximum rate.

The dividend payment date for special rate periods will be set out in the notice designating a specia rate period. Dividends on the Preferred Shares wil be cumulative from the date the shares are first issued and will be paid out of legally available funds.

	INITIAL DIVIDEND RATE	DIVIDEND PAYMEN DATE FOR INITIA RATE PERIOD
Series [ ]..........	%	, 200

The Fund may, subject to certain conditions, designate special rate periods of more than seven days.

The Fund may not designate a special rate period unless sufficient clearing bids were made in the m recent auction. In addition, full cumulative dividends, any amounts due with respect to mandato redemptions and any additional dividends payable prior to such date must be paid in full. The Fund

also must have received confirmation from Moody's S&P or any substitute rating agency that the propo special rate period will not adversely affect such agency's then-current rating on the Preferred Shar and the lead Broker-Dealer designated by the Fund, must not have objected to declaration of a special rate period.
See 'Description of Preferred Shares -- Dividends Rate Periods' and ' -- Designation of Special Rate Periods' and 'The Auction.'

SECONDARY MARKET TRADING..................... Broker-dealers may, but are not obligated to, maintain a secondary trading market in the Preferr Shares outside of auctions. There can be no assura that a secondary market will provide owners with liquidity. You may transfer shares outside of auctions only to or through a broker-dealer that h entered into an agreement with the auction agent a the Fund, or other persons as the Fund permits.

INTEREST RATE TRANSACTIONS.................. In order to reduce the interest rate risk inherent our underlying investments and capital structure, may enter into interest rate swap or cap transactions. The use of interest rate swaps and c is a highly specialized activity that involves investment techniques and risks different from tho associated with ordinary portfolio security transactions. In an interest rate swap, the Fund would agree to pay to the other party to the inter rate swap (which is known as the 'counterparty') a fixed rate payment in exchange for the counterpart agreeing to pay to the Fund a variable rate paymen that is intended to approximate the Fund's variabl rate payment obligation on the Preferred Shares. T payment would be based on the notional amount of t swap. In an interest rate cap, the Fund would pay premium to the counterparty to the interest rate c and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such ca If the counterparty to an interest rate swap or ca defaults, the Fund would be obligated to make the payments that it had intended to avoid. Depending the general state of short-term interest rates and the returns on the Fund's portfolio securities at that point in time, this default could negatively impact the Fund's ability to make dividend payment on the Preferred Shares. In addition, at the time interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that t Fund will not be able to obtain a replacement transaction or that the terms of the replacement w not be as favorable as on the expiring transaction If this occurs, it could have a negative impact on the Fund's ability to make dividend payments on th Preferred Shares. If the Fund fails to maintain th required asset coverage on the outstanding Preferr Shares or fails to comply with

other covenants, the Fund may be required to redee some or all of these shares. Such redemption likel would result in the Fund seeking to terminate earl all or a portion of any swap or cap transaction. Early termination of the swap could result in a termination payment by or to the Fund. Early termination of a cap could result in a termination payment to the Fund. We would not enter into inter rate swap or cap transactions having a notional amount that exceeded the outstanding amount of the Preferred Shares. See 'How the Fund Manages Risk -- Interest Rate Transactions' for additional information.

ASSET MAINTENANCE.......................... Under the Fund's Articles Supplementary for the Preferred Shares, which establishes and fixes the rights and preferences of the shares of the Prefer Shares and the Series T, Series W, Series TH and Series F AMPS), the Fund must maintain:

asset coverage of the Preferred Shares as require the rating agency or agencies rating the Preferre Shares, and

asset coverage of at least 200% with respect to senior securities that are stock, including the Preferred Shares.

In the event that the Fund does not maintain or cu these coverage tests, some or all of the Preferred Shares will be subject to mandatory redemption. Se 'Description of Preferred Shares -- Redemption.' Based on the composition of the Fund's portfolio a of , 2003, the asset coverage of the Preferred Shares as measured pursuant to the 1940 would be approximately % if the Fund were to is all of the Preferred Shares offered in this Prospectus, representing approximately % of the

Fund's managed assets (as defined below).

REDEMPTION.................................. The Fund does not expect to and ordinarily will no redeem the Preferred Shares. However, under the Articles Supplementary, it may be required to rede the Preferred Shares in order, for example, to mee an asset coverage ratio or to correct a failure to meet a rating agency guideline in a timely manner. The Fund may also voluntarily redeem the Preferred Shares without the consent of holders of the Preferred Shares under certain conditions. See 'Description of Preferred Shares -- Redemption.'

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LIQUIDATION PREFERENCE...................... The liquidation preference (that is, the amount th Fund must pay to holders of the Preferred Shares i the Fund is liquidated) for the Preferred Shares w be $25,000 per share plus accumulated but unpaid dividends, if any, whether or not earned or declar

VOTING RIGHTS............................... The 1940 Act requires that the holders of the Preferred Shares, and the holders of any other ser of preferred stock of the Fund, voting as a separa class, have the right to:

elect at least two directors at all times, and

elect a majority of the directors if at any time Fund fails to pay dividends on either series of t Preferred Shares, or any other series of preferre stock of the Fund, for two full years and will continue to be so represented until all dividends arrears have been paid or otherwise provided for.

The holders of the Preferred Shares, and the holde of any other series of preferred stock of the Fund will vote as a separate class or series on other matters as required under the Fund's Articles of Incorporation (which, as hereafter amended, restat or supplemented from time to time, is together wit the Articles Supplementary, referred to as the 'Charter'), the 1940 Act and Maryland law. Each Common Share, each Preferred Share, and each share any other series of preferred stock of the Fund is entitled to one vote per share.

FEDERAL INCOME TAXATION..................... The distributions with respect to the Preferred Shares (other than distributions in redemption of Preferred Shares subject to Section 302(b) of the Code) will constitute dividends to the extent of t

Fund's current or accumulated earnings and profits as calculated for federal income tax purposes. Suc dividends generally will be taxable as ordinary income to holders. Distributions of net capital ga that are designated by the Fund as capital gain dividends will be treated as long-term capital gai in the hands of holders receiving such distributio The Internal Revenue Service ('IRS') currently requires that a regulated investment company that two or more classes of stock allocate to each such class proportionate amounts of each type of its income (such as ordinary income and capital gains) based upon the percentage of total dividends distributed to each class for the tax year. Accordingly, the Fund intends each year to allocat capital gain dividends

among its Common Shares, the Preferred Shares and Series T, Series TH, Series F, and Series W AMPS i proportion to the total dividends paid to each cla during or with respect to such year. See 'U.S. Federal Taxation.'

CUSTODIAN, AUCTION AGENT, TRANSFER AGENT, DIVIDEND PAYING AGENT AND REGISTRAR.......... State Street Bank serves as the Fund's custodian. Bank of New York serves as auction agent, transfer agent, dividend paying agent and registrar for the Preferred Shares.

FINANCIAL HIGHLIGHTS

The following table includes selected data for a common share outstanding throughout each period and other performance information derived from the Financial Statements. It should be read in conjunction with the Financial Statements and notes thereto.

The financial highlights for the period ended December 31, 2002 have been audited by PricewaterhouseCoopers LLP, independent accountants, whose report thereon, along with the financial statements, is included in the Statement of Additional Information.

	FOR THE SIX MONTHS ENDED JUNE 30, 2003 (UNAUDITED)	FOR THE PERIOD FEBRUARY 28, 2002(a THROUGH DECEMBER 31, 2002
PER SHARE OPERATING PERFORMANCE:		
Net asset value per common share, beginning of period.......	$	$ 14.57
Income from investment operations:		
Net investment income..................................		1.00
Net realized and unrealized loss on investments.........		(1.12)
Total loss from investment operations..............		(0.12)
Less dividends and distributions to preferred shareholders from:		
Net investment income..................................		(0.09)
Net realized gain on investments.......................		(0.01)
Total dividends and distributions to preferred shareholders....................................		(0.10)
Total from investment operations applicable to common shares..................................		(0.22)
Less: Offering and organization costs charged to paid-in capital -- common shares......................................		(0.03)
Offering and organization costs charged to paid-in capital -- preferred shares..................................		(0.09)
Dilutive effect of common share offering...............		(0.03)
Total offering and organization costs..............		(0.15)

(a) Commencement of operations.

FINANCIAL HIGHLIGHTS -- (CONTINUED)

	FOR THE SIX MONTHS ENDED JUNE 30, 2003 (UNAUDITED)	FOR THE PERIOD FEBRUARY 28, 2002(a THROUGH DECEMBER 31, 2002
Less: dividends and distributions to common shareholders from:		
Net investment income..................................		(0.64)
Net realized gain on investments.......................		(0.08)
Tax return of capital..................................		(0.23)
Total dividends and distributions to common shareholders....................................		(0.95)
Net decrease in net asset value per common share............		(1.32)
Net asset value, per common share, end of period...........	$	$ 13.25
Market value, per common share, end of period..............	$	$ 13.05
Net asset value total return(b)............................	%	- 2.73%(c)
Market value return(b).....................................	%	- 6.95%(c)

(a) Commencement of operations.

(b) Total market value return is computed based upon the New York Stock Exchange market price of the fund's shares and excludes the effects of brokerage commissions. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at prices obtained under the fund's dividend reinvestment plan. Total net asset value return measures the changes in value over the period indicated, taking into account dividends as reinvested.

(c) Not annualized.

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FINANCIAL HIGHLIGHTS -- (CONTINUED)

	FOR THE SIX MONTHS ENDED JUNE 30, 2003 (UNAUDITED)	FOR THE PERIOD FEBRUARY 28, 2002(a THROUGH DECEMBER 31, 2002
RATIOS/SUPPLEMENTAL DATA:		
Net assets applicable to common shares, end of period (in millions)..	$	$ 512.0
Ratio of expenses to average daily net assets applicable to common shares (before expense reduction)..................	%	2.63%(d)
Ratio of expenses to average daily net assets applicable to common shares (net of expense reduction)..................	%	2.16%(d)
Ratio of net investment income to average daily net assets applicable to common shares (before expense reduction)....	%	8.91%(d)
Ratio of net investment income to average daily net assets applicable to common shares (net of expense reduction)....	%	9.38%(d)
Ratio of expenses to average daily managed assets (before expense reduction)(b)....................................	%	1.79%(d)
Ratio of expenses to average daily managed assets (net of expense reduction)(b)....................................	%	1.47%(d)

Portfolio turnover rate	%	12.37%(c)
PREFERRED SHARES:		
Liquidation value, end of period (in 000's)	$	$ 280,000
Total shares outstanding (in 000's)	$	11
Asset coverage per share	$	$ 70,710
Liquidation preference per share	$	$ 25,000
Average market value per share(e)	$	$ 25,000

(a) Commencement of operations.

(b) Represents net assets applicable to common shares plus liquidation preference of preferred shares.

(c) Not annualized.

(d) Annualized.

(e) Based on weekly prices.

THE FUND

The Fund is a recently organized, non-diversified, closed-end management investment company. We were organized as a Maryland corporation on August 22, 2001 and are registered as an investment company with the SEC under the Investment Company Act of 1940 (the '1940 Act'). The Fund issued an aggregate of 34,000,000 Common Shares, par value $.001 per share, pursuant to the initial public offering thereof and commenced its operations with the closing of this initial public offering on February 28, 2002. On March 8, 2002 and March 21, 2002, the Fund issued 2,000,000 and 1,700,000 additional Common Shares, respectively, in connection with a partial exercise by the underwriters of the over-allotment option. On April 4, 2002, the Fund issued 2,800 Series T AMPS, 2,800 Series W AMPS, 2,800 Series TH AMPS and 2,800 Series F AMPS. The Fund's

Common Shares are traded on the NYSE under the symbol 'RQI.' The Fund's principal office is located at 757 Third Avenue, New York, New York 10017, and our telephone number is (212) 832-3232.

The following provides information about the Fund's outstanding shares as of , 2003:

TITLE OF CLASS	AMOUNT AUTHORIZED	AMOUNT HELD BY THE FUND OR FOR ITS ACCOUNT	AMOUNT OUTSTANDING
Common..	99,988,800	-0-	37,707,000
Preferred.....................................			
Series T..................................	2,800	-0-	2,800
Series TH.................................	2,800	-0-	2,800
Series F..................................	2,800	-0-	2,800
Series W..................................	2,800	-0-	2,800
Series [ ]................................		-0-	-0-

USE OF PROCEEDS

We estimate the net proceeds of this offering of the Preferred Shares, after payment of the sales load and offering expenses, will be $. The net proceeds of this offering will be invested in accordance with the policies set forth under 'Investment Objectives and Policies.' We estimate that the net proceeds of this offering will be fully invested in accordance with our investment objectives and policies within four months of the completion of this offering. Pending such investment, those proceeds may be invested in U.S. Government securities or high quality, short-term money market instruments. See 'Investment Objectives and Policies.'

CAPITALIZATION (UNAUDITED)

The following table sets forth the unaudited capitalization of the Fund as of , 2003, and as adjusted to give effect to the issuance of the Preferred Shares offered in this Prospectus.

	ACTUAL	AS ADJUSTED

		(UNAUDITED)
SHAREHOLDERS' EQUITY:		
AMPS, $0.001 par value, $25,000 liquidation value; shares authorized (2,800 Series T AMPS, 2,800 Series TH AMPS, 2,800 Series F AMPS, and 2,800 Series W AMPS and Series Preferred Shares, as adjusted, respectively)........................	$ --	$
Common Shares, $.001 par value per share; shares authorized, shares outstanding.....	$	$
Paid-in surplus....................................	$	$
Balance of undistributed net investment income.......	$	$
Accumulated net realized gain (loss) from investment transactions.....................................	$	$
Net unrealized appreciation (depreciation) of investments......................................		
Net assets..	$	$

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INVESTMENT OBJECTIVES AND POLICIES

GENERAL

Our primary investment objective is high current income through investment in real estate securities. Capital appreciation is a secondary investment objective. The Fund's investment objectives and certain other policies are fundamental and may not be changed without the approval of shareholders. Unless otherwise indicated, the Fund's investment policies are not fundamental and may be changed by the Board of Directors without the approval of shareholders, although we have no current intention of doing so. The Fund has a policy of concentrating its investments in the U.S. real estate industry and not in any other industry. This investment policy is fundamental and cannot be changed without the approval of a majority of the Fund's outstanding voting securities, as defined in the 1940 Act, as amended. Under normal market conditions, we will invest at least 90% of our total assets in common stocks, preferred stocks and other equity securities issued by real estate companies, such as 'real estate investment trusts' ('REITs'). At least 80% of our total assets will be invested in income producing equity securities issued by high quality REITs and substantially all of the equity securities of real estate companies in which we intend to invest are traded on a national securities exchange or in the over-the-counter market. High quality REITs are companies that, in the opinion of the Investment Manager, offer excellent prospects for consistent, above-average revenue and earnings growth. To determine whether a company is of high quality, the Investment Manager generally looks to a strong record of earnings growth, as well as to a company's current ratio of debt to capital and the quality of its management. All of the REITs in which the Fund will invest will have a market capitalization greater than $100 million. We may invest up to 10% of our total assets in debt securities issued or guaranteed by real estate companies. We will not invest more than 20% of our total assets in preferred stock or debt securities rated below investment grade (commonly known as 'junk bonds') or unrated securities of comparable quality. Preferred stock or debt securities will be considered to be investment grade if, at the time of investment, such security has a rating of 'BBB' or higher by S&P, 'Baa' or higher by Moody's or an equivalent rating by a nationally recognized statistical rating agency. The Investment Manager may also invest in preferred stock or debt securities which are unrated but which, in the opinion of the Investment Manager, are determined to be of equivalent quality. See Appendix A in the SAI for a description of bond ratings. These two policies are fundamental and cannot be changed without the approval of a majority of the Fund's voting securities, as defined in the 1940 Act, as amended. We will invest only in securities of U.S. issuers and generally will not invest more than 10% of our total assets in the securities of one issuer.

We will not enter into short sales or invest in derivatives, except as described in this Prospectus in connection with the interest rate swap or interest rate cap transactions. See 'How the Fund Manages Risk -- Interest Rate Transactions.' There can be no assurance that our investment objectives will be achieved.

INVESTMENT STRATEGIES

In making investment decisions on behalf of the Fund, the Investment Manager relies on a fundamental analysis of each company. The Investment Manager reviews each company's potential for success in light of the company's current financial condition, its industry and sector position,

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and economic and market conditions. The Investment Manager also evaluates a number of factors, including growth potential, earnings estimates and the quality of management.

PORTFOLIO COMPOSITION

Our portfolio will be composed principally of the following investments. A more detailed description of our investment policies and restrictions and more detailed information about our portfolio investments are contained in the SAI.

Real Estate Companies. For purposes of our investment policies, a real estate company is one that:

derives at least 50% of its revenues from the ownership, construction, financing, management or sale of commercial, industrial, or residential real estate; or

has at least 50% of its assets in such real estate.

Under normal market conditions, we will invest at least 90% of our total assets in the equity securities of real estate companies. These equity securities can consist of:

common stocks (including REIT shares);

preferred stocks;

rights or warrants to purchase common and preferred stocks; and

securities convertible into common and preferred stocks where the conversion feature represents, in the Investment Manager's view, a significant element of the securities' value.

Real Estate Investment Trusts. We invest at least 80% of our total assets in income producing equity securities of REITs. A REIT is a company dedicated to owning, and usually operating, income producing real estate, or to financing real estate. REITs pool investors' funds for investment primarily in income producing real estate or real estate-related loans or interests. A REIT is not taxed on income distributed to shareholders if, among other things, it distributes to its shareholders substantially all of its taxable income (other than net capital gains) for each taxable year. As a result, REITs tend to pay relatively higher dividends than other types of companies and we intend to use these REIT dividends in an effort to meet the current income goal of our investment objectives.

REITs can generally be classified as Equity REITs, Mortgage REITs and Hybrid REITs. Equity REITs, which invest the majority of their assets directly in real property, derive their income primarily from rents. Equity REITs can also realize capital gains by selling properties that have appreciated in value. Mortgage REITs, which invest the majority of their assets in real estate mortgages, derive their income primarily from interest payments. Hybrid REITs combine the characteristics of both Equity REITs and Mortgage REITs. We do not currently intend to invest more than 10% of our total assets in Mortgage REITs or Hybrid REITs.

Preferred Stocks. Preferred stocks pay fixed or floating dividends to investors, and have a 'preference' over common stock in the payment of dividends and the liquidation of a company's assets. This means that a company must pay dividends on preferred stock before paying any dividends on its common stock. Preferred stockholders usually have no right to vote for corporate directors or on other matters. Under current market conditions, the Investment Manager expects to invest approximately 70% of our total assets in common shares of real estate companies and approximately 30% in preferred shares of REITs. The actual percentage of common and preferred

shares in our investment portfolio may vary over time based on the Investment Manager's assessment of market conditions.

Debt Securities. We may invest a maximum of 10% of our total assets in investment grade and non-investment grade debt securities issued or guaranteed by real estate companies.

Lower-rated Securities. We will not invest more than 20% of our total assets in preferred stock and debt securities rated below investment grade (commonly known as 'junk bonds') and equivalent unrated securities of comparable quality. Securities rated non-investment grade (lower than 'BBB' by S&P or lower than 'Baa' by Moody's, are sometimes referred to as 'high yield' or 'junk' bonds. We may only invest in high yield securities that are rated 'CCC' or higher by S&P, or rated 'Caa' or higher by Moody's, or unrated securities determined by the Investment Manager to be of comparable quality. The issuers of these securities have a currently identifiable vulnerability to default and such issues may be in default or there may be present elements of danger with respect to principal or interest. We will not invest in securities that are in default at the time of purchase. For a description of bond ratings, see Appendix A of the SAI.

Defensive Position. When the Investment Manager believes that market or general economic conditions justify a temporary defensive position, we may deviate from our investment objectives and invest all or any portion of our assets in investment grade debt securities, without regard to whether the issuer is a real estate company. When and to the extent we assume a temporary defensive position, we may not pursue or achieve our investment objectives.

OTHER INVESTMENTS

The Fund's cash reserves, held to provide sufficient flexibility to take advantage of new opportunities for investments and for other cash needs, will be invested in money market instruments. Money market instruments in which we may invest our cash reserves will generally consist of obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities and such obligations that are subject to repurchase agreements and commercial paper. See 'Additional Information about Fund Investment Objectives and Policies' in the SAI.

RISK FACTORS

Risk is inherent in all investing. Before investing you should consider carefully the following risks that you assume when you invest in the Preferred Shares.

RISKS OF INVESTING IN PREFERRED SHARES

Leverage Risk. The Fund uses financial leverage for investment purposes by issuing preferred shares. It is currently anticipated that, taking into account the Preferred Shares being offered in this Prospectus, the amount of leverage will represent approximately 33 1/3% of the Fund's managed assets (as defined below).

The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. These include the possibility of higher volatility of the net asset value of the Fund and the Preferred Shares' asset coverage. As long as the Preferred Shares are outstanding, the Fund does not intend to utilize other forms of leverage.

Because the fee paid to the Investment Manager will be calculated on the basis of the Fund's managed assets (which equals the aggregate net asset value ('NAV') of the Common Shares plus

the liquidation preference of the Preferred Shares), the fee will be higher when leverage is utilized, giving the Investment Manager an incentive to utilize leverage.

Interest Rate Risk. The Fund issues the Preferred Shares, which pay dividends based on short-term interest rates. The Fund purchases real estate equity securities that pay dividends that are based on the performance of the issuing companies. The Fund also may buy real estate debt securities that pay interest based on longer-term yields. These dividends and interest payments are typically, although not always, higher than short-term interest rates. Real estate company dividends, as well as long-term and short-term interest rates, fluctuate. If short-term interest rates rise, dividend rates on the Preferred Shares may rise so that the amount of dividends to be paid to stockholders of Preferred Shares exceeds the income from the portfolio securities. Because income from the Fund's entire investment portfolio (not just the portion of the portfolio purchased with the proceeds of the Preferred Shares offering) is available to pay dividends on the Preferred Shares, however, dividend rates on the Preferred Shares would need to greatly exceed the Fund's net portfolio income before the Fund's ability to pay dividends on the Preferred Shares would be jeopardized. If long-term interest rates rise, this could negatively impact the value of the Fund's investment portfolio, reducing the amount of assets serving as asset coverage for the Preferred Shares. The Fund anticipates entering into interest rate swap or cap transactions with the intent to reduce or eliminate the risk posed by an increase in short-term interest rates. There is no guarantee that the Fund will engage in these transactions or that these transactions will be successful in reducing or eliminating interest rate risk. See 'How the Fund Manages Risk.'

Auction Risk. You may not be able to sell your Preferred Shares at an auction if the auction fails, i.e., if there are more Preferred Shares offered for sale than there are buyers for those shares. Also, if you place hold orders (orders to retain the Preferred Shares) at an auction only at a specified rate, and that bid rate exceeds the rate set at the auction, you will not retain your Preferred Shares. Additionally, if you buy shares or elect to retain shares without specifying a rate below which you would not wish to continue to hold those shares, and the auction sets a below-market rate, you may receive a lower rate of return on your shares than the market rate. Finally, the dividend period may be changed, subject to certain conditions and with notice to the holders of the Preferred Shares, which could also affect the liquidity of your investment. See 'Description of Preferred Shares' and 'The Auction.'

Secondary Market Risk. If you try to sell your Preferred Shares between auctions, you may not be able to sell any or all of your shares, or you may not be able to sell them for $25,000 per share or $25,000 per share plus accumulated dividends. If the Fund has designated a special rate period (a dividend period of more than seven days in the case of the Series T, Series TH, and Series F AMPS, and 28 days in the case of the Series W AMPS), changes in interest rates could affect the price you would receive if you sold your shares in the secondary market. You may transfer shares outside of auctions only to or through a broker-dealer that has entered into an agreement with the auction agent and the Fund or other person as the Fund permits. The Fund does not anticipate imposing significant restrictions on transfers to other persons. However, unless any such other person has entered into a relationship with a broker-dealer that has entered into a broker-dealer agreement with the Auction Agent, that person will not be able to submit bids at auctions with respect to the Preferred Shares. Broker-dealers that maintain a secondary trading market for the Preferred Shares are not required to maintain this market, and the Fund is not required to redeem shares either if an auction or an attempted secondary market sale fails because of a lack of buyers. The Preferred Shares are not registered on a stock exchange or the National

Association of Securities Dealers Automated Quotations, Inc. ('NASDAQ') stock market. If you sell your Preferred Shares to a broker-dealer between auctions, you may receive less than the price you paid for them, especially when market interest rates have risen since the last auction and during a special rate period.

Ratings and Asset Coverage Risk. While it is a condition to the closing of the offering that S&P assigns a rating of 'AAA' and Moody's assigns a rating of 'Aaa' to the Preferred Shares, the ratings do not eliminate or necessarily mitigate the risks of investing in the Preferred Shares. In addition, Moody's, S&P or another rating agency then rating the Preferred Shares could downgrade the Preferred Shares, which may make your shares less liquid at an auction or in the secondary market. If a rating agency downgrades the Preferred Shares, the dividend rate on the Preferred Shares will be the applicable maximum rate based on the credit rating of the Preferred Shares, which will be a rate higher than is payable currently on the Preferred Shares. See 'Description of Preferred Shares -- Rating Agency Guidelines' for a description of the asset maintenance tests the Fund must meet.

Portfolio Security Risk. Portfolio security risk is the risk that an issuer of a security in which the Fund invests will not be able, in the case of common stocks, to make dividend distributions at the level forecast by the Fund's Investment Manager, or that the issuer becomes unable to meet its obligation to pay fixed dividends at the specified rate, in the case of preferred stock, or to make interest and principal payments in the case of debt securities. Common stock is not rated by rating agencies and it is incumbent on the Investment Manager to select securities of real estate companies that it believes have the ability to pay dividends at the forecasted level. Preferred stock and debt securities may be rated. The Fund may invest up to 20% of its total assets in preferred stock or debt securities rated below investment grade (commonly known as 'junk bonds') by S&P or Moody's, or unrated securities considered to be of comparable quality by the Investment Manager. In general, lower-rated securities carry a greater degree of risk. If rating agencies lower their ratings of securities held in the Fund's portfolio, the value of those securities could decline, which could jeopardize the rating agencies' ratings of the Preferred Shares. The failure of a company to pay common stock or preferred stock dividends, or interest payments, at forecasted or contractual rates, could have a negative impact on the Fund's ability to pay dividends on the Preferred Shares and could result in the redemption of some or all of the Preferred Shares.

Restrictions on Dividends and other Distributions. Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the Fund's Common Shares, the Series T, Series W, Series TH and Series F AMPS, and the Preferred Shares, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to maintain its qualification as a regulated investment company for federal income tax purposes.

While the Fund intends to redeem the Series T, Series W, Series TH and Series F AMPS, and the Preferred Shares to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Code, there can be no assurance that such actions can be effected in time to meet the Code requirements. See 'U.S. Federal Taxation.'

GENERAL RISKS OF INVESTING IN THE FUND

We are a non-diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete

investment program and, due to the uncertainty inherent in all investments, there can be no assurance that we will achieve our investment objectives.

Limited Operating History. We are a recently organized, non-diversified, closed-end management investment company with a limited operating history.

Stock Market Risk. Because prices of equity securities fluctuate from day-to-day, the value of our portfolio will vary based upon general market conditions.

General Risks of Securities Linked to the Real Estate Market. We will not invest in real estate directly, but only in securities issued by real estate companies, including REITs. However, because of our policy of concentration in the securities of companies in the real estate industry, we are also subject to the risks associated with the direct ownership of real estate. These risks include:

declines in the value of real estate

risks related to general and local economic conditions

possible lack of availability of mortgage funds

overbuilding

extended vacancies of properties

increased competition

increases in property taxes and operating expenses

changes in zoning laws

losses due to costs resulting from the clean-up of environmental problems

liability to third parties for damages resulting from environmental problems

casualty or condemnation losses

limitations on rents

changes in neighborhood values and the appeal of properties to tenants

changes in interest rates

Thus, the value of our portfolio securities may change at different rates compared to the value of portfolio securities of a registered investment company with investments in a mix of different industries and will depend on the general condition of the economy. An economic downturn could have a material adverse effect on the real estate markets and on real estate companies in which the Fund invests, which in turn could result in the Fund not achieving its investment objectives.

General Real Estate Risks. Real property investments are subject to varying degrees of risk. The yields available from investments in real estate depend on the amount of income and capital appreciation generated by the related properties. Income and real estate values may also be adversely affected by such factors as applicable laws (e.g., Americans with Disabilities Act and tax laws), interest rate levels, and the availability of financing. If the properties do not generate sufficient income to meet operating expenses, including, where applicable, debt service, ground lease payments, tenant improvements, third-party leasing commissions and other capital expenditures, the income and ability of the real estate company to make payments of any interest and principal on its debt securities will be adversely affected. In addition, real property may be subject to the quality of credit extended and defaults by borrowers and tenants. The performance of the economy in each of the regions in which the real estate owned by the portfolio company is located affects occupancy, market rental rates and expenses and, consequently, has an impact on

the income from such properties and their underlying values. The financial results of major local employers also may have an impact on the cash flow and value of certain properties. In addition, real estate investments are relatively illiquid and, therefore, the ability of real estate companies to vary their portfolios promptly in response to changes in economic or other conditions is limited. A real estate company may also have joint venture investments in certain of its properties, and, consequently, its ability to control decisions relating to such properties may be limited.

Real property investments are also subject to risks which are specific to the investment sector or type of property in which the real estate companies are investing.

Retail Properties. Retail properties are affected by the overall health of the applicable economy. A retail property may be adversely affected by the growth of alternative forms of retailing, bankruptcy, decline in drawing power, departure or cessation of operations of an anchor tenant, a shift in consumer demand due to demographic changes, and/or changes in consumer preference (for example, to discount retailers) and spending patterns. A retail property may also be adversely affected if a significant tenant ceases operation at such location, voluntarily or otherwise. Certain tenants at retail properties may be entitled to terminate their leases if an anchor tenant ceases operations at such property.

Office Properties. Office properties generally require their owners to expend significant amounts for general capital improvements, tenant improvements and costs of reletting space. In addition, office properties that are not equipped to accommodate the needs of modern businesses may become functionally obsolete and thus non-competitive. Office properties may also be adversely affected if there is an economic decline in the businesses operated by their tenants. The risks of such an adverse effect is increased if the property revenue is dependent on a single tenant or if there is a significant concentration of tenants in a particular business or industry.

Hotel Properties. The risks of hotel properties include, among other things, the necessity of a high level of continuing capital expenditures to keep necessary furniture, fixtures and equipment updated, competition from other hotels, increases in operating costs (which increases may not necessarily be offset in the future by increased room rates), dependence on business and commercial travelers and tourism, increases in fuel costs and other expenses of travel, changes to regulation of operating liquor and other licenses, and adverse effects of general and local economic conditions. Due to the fact that hotel rooms are generally rented for short periods of time, hotel properties tend to be more sensitive to adverse economic conditions and competition than many other commercial properties.

Also, hotels may be operated pursuant to franchise, management and operating agreements that may be terminable by the franchiser, the manager or the operator. Contrarily, it may be difficult to terminate an ineffective operator of a hotel property subsequent to a foreclosure of such property.

Healthcare Properties. Healthcare properties and healthcare providers are affected by several significant factors including federal, state and local laws governing licenses, certification, adequacy of care, pharmaceutical distribution, rates, equipment, personnel and other factors regarding operations; continued availability of revenue from government reimbursement programs (primarily Medicaid and Medicare); and competition in terms of appearance, reputation, quality and cost of care with similar properties on a local and regional basis.

These governmental laws and regulations are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial

interpretations of existing law. Changes may also be applied retroactively and the timing of such changes cannot be predicted. The failure of any healthcare operator to comply with governmental laws and regulations may affect its ability to operate its facility or receive government reimbursement. In addition, in the event that a tenant is in default on its lease, a new operator or purchaser at a foreclosure sale will have to apply in its own right for all relevant licenses if such new operator does not already hold such licenses. There can be no assurance that such new licenses could be obtained, and consequently, there can be no assurance that any healthcare property subject to foreclosure will be disposed of in a timely manner.

Multifamily Properties. The value and successful operation of a multifamily property may be affected by a number of factors such as the location of the property, the ability of management to provide adequate maintenance and insurance, types of services provided by the property, the level of mortgage rates, presence of competing properties, the relocation of tenants to new projects with better amenities, adverse economic conditions in the locale, the amount of rent charged, and oversupply of units due to new construction. In addition, multifamily properties may be subject to rent control laws or other laws affecting such properties, which could impact the future cash flows of such properties.

Insurance Issues. Certain of the portfolio companies may, in connection with the issuance of securities, have disclosed that they carry comprehensive liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. However such insurance is not uniform among the portfolio companies. Moreover, there are certain types of extraordinary losses that may be uninsurable, or not economically insurable. Certain of the properties may be located in areas that are subject to earthquake activity for which insurance may not be maintained. Should a property sustain damage as a result of an earthquake, even if the portfolio company maintains earthquake insurance, the portfolio company may incur substantial losses due to insurance deductibles, co-payments on insured losses or uninsured losses. Should any type of uninsured loss occur, the portfolio company could lose its investment in, and anticipated profits and cash flows from, a number of properties and, as a result, impact the Fund's investment performance.

Credit Risk. REITs may be highly leveraged and financial covenants may affect the ability of REITs to operate effectively. The portfolio companies are subject to risks normally associated with debt financing. If the principal payments of a real estate company's debt cannot be refinanced, extended or paid with proceeds from other capital transactions, such as new equity capital, the real estate company's cash flow may not be sufficient to repay all maturing debt outstanding.

In addition, a portfolio company's obligation to comply with financial covenants, such as debt-to-asset ratios, secured debt-to-total asset ratios and other contractual obligations, may restrict a REIT's range of operating activity. A portfolio company, therefore, may be limited from incurring additional indebtedness, selling its assets and engaging in mergers or making acquisitions which may be beneficial to the operation of the REIT.

Environmental Issues. In connection with the ownership (direct or indirect), operation, management and development of real properties that may contain hazardous or toxic substances, a portfolio company may be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines and liabilities for injuries to persons and property. The existence of any such

material environmental liability could have a material adverse effect on the results of operations and cash flow of any such portfolio company and, as a result, the amount available to make distributions on the shares could be reduced.

Smaller Companies. Even the larger REITs in the industry tend to be small to medium-sized companies in relation to the equity markets as a whole. There may be less trading in a smaller company's stock, which means that buy and sell transactions in that stock could have a larger impact on the stock's price than is the case with larger company stocks. Smaller companies also may have fewer lines of business so that changes in any one line of business may have a greater impact on a smaller company's stock price than is the case for a larger company. Further, smaller company stocks may perform in different cycles than larger company stocks. Accordingly, REIT shares can be more volatile than -- and at times will perform differently from -- large company stocks such as those found in the Dow Jones Industrial Average.

Tax Issues. REITs are subject to a highly technical and complex set of provisions in the Code. It is possible that the Fund may invest in a real estate company which purports to be a REIT and that the company could fail to qualify as a REIT. In the event of any such unexpected failure to qualify as a REIT, the company would be subject to corporate-level taxation, significantly reducing the return to the Fund on its investment in such company. REITs could possibly fail to qualify for tax free pass-through of income under the Code, or to maintain their exemptions from registration under the 1940 Act. The above factors may also adversely affect a borrower's or a lessee's ability to meet its obligations to the REIT. In the event of a default by a borrower or lessee, the REIT may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments.

Preferred Stocks and Debt Securities Risk. In addition to the risks of equity securities and securities linked to the real estate market, preferred stocks and debt securities also are more sensitive to changes in interest rates than common stocks. When interest rates rise, the value of preferred stocks and debt securities may fall.

Lower-Rated Securities. Lower-rated securities may be considered speculative with respect to the issuer's continuing ability to make principal and interest payments. Analysis of the creditworthiness of issuers of lower-rated securities may be more complex than for issuers of higher quality debt securities, and our ability to achieve our investment objectives may, to the extent we are invested in lower-rated debt securities, be more dependent upon such creditworthiness analysis than would be the case if we were investing in higher quality securities. We may invest in high yield securities that are rated 'CCC' or higher by S&P or 'Caa' or higher by Moody's or unrated securities that are determined by the Investment Manager to be of comparable quality. An issuer of these securities has a currently identifiable vulnerability to default and the issues may be in default or there may be present elements of danger with respect to principal or interest. We will not invest in securities which are in default at the time of purchase.

Lower-rated securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher grade securities. The prices of lower-rated securities have been found to be less sensitive to interest-rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual corporate developments. Yields on lower-rated securities will fluctuate. If the issuer of lower-rated securities defaults, the Fund may incur additional expenses to seek recovery.

The secondary markets in which lower-rated securities are traded may be less liquid than the market for higher grade securities. Less liquidity in the secondary trading markets could adversely affect the price at which we could sell a particular lower-rated security when necessary to meet liquidity needs or in response to a specific economic event, such as a deterioration in the creditworthiness of the issuer, and could adversely affect and cause large fluctuations in the NAV of our shares. Adverse publicity and investor perceptions may decrease the values and liquidity of high yield securities.

It is reasonable to expect that any adverse economic conditions could disrupt the market for lower-rated securities, have an adverse impact on the value of such securities, and adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon. New laws and proposed new laws may adversely impact the market for lower-rated securities.

Market Disruption Risk. The terrorist attacks in the U.S. on September 11, 2001 had a disruptive effect on the securities markets. The war in Iraq and instability in the Middle East also has resulted in recent market volatility and may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties in the U.S. and worldwide. The Fund does not know how long the securities markets will continue to be affected by these events and cannot predict the effects of the war or similar events in the future on the U.S. economy and securities markets.

HOW THE FUND MANAGES RISK

INVESTMENT LIMITATIONS

The Fund has adopted certain investment limitations designed to limit investment risk and maintain portfolio diversification. These limitations are fundamental and may not be changed without the approval of the holders of a majority, as defined in the 1940 Act, of the outstanding Common Shares, the Series T, Series W, Series TH and Series F AMPS, and the Preferred Shares voting together as a single class, and the approval of the holders of a majority, as defined in the 1940 Act, of the outstanding Series T, Series W, Series TH and Series F AMPS, and the Preferred Shares voting as a separate class. The Fund will not invest more than 20% of its total assets in preferred stock or debt securities rated below investment grade (commonly known as 'junk bonds') or unrated securities of comparable quality. All of our investments will be in securities of U.S. issuers and we will generally not invest more than 10% of our total assets in the securities of one issuer. The Fund may become subject to guidelines that are more limiting than the investment restrictions set forth above in order to obtain and maintain ratings from S&P or Moody's on the Preferred Shares. See 'Investment Restrictions' in the SAI for a complete list of the fundamental and non-fundamental investment policies of the Fund.

INTEREST RATE TRANSACTIONS

In order to reduce the interest rate risk inherent in our underlying investments and capital structure, we may enter into interest rate swap or cap transactions.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the 'counterparty') a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund a variable rate payment that is intended to approximate the Fund's variable rate payment obligation on the Preferred Shares or any variable rate borrowing. The payment would be based on the notional amount of the swap. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. If the counterparty to an interest rate swap or cap defaults, the Fund would be obligated to make the payments that it had intended to avoid. Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at that point in time, a default could negatively impact the Fund's ability to make dividend payments on the Preferred Shares. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund's ability to make dividend payments on the Preferred Shares. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, resulting in a decline in the asset coverage for the Preferred Shares. A sudden and dramatic decline in interest rates may result in a significant decline in the asset coverage. Under the terms of the Preferred Shares, if the Fund fails to maintain the required asset coverage on the outstanding Preferred Shares or fails to comply with other covenants, the Fund may be required to redeem some or all of these shares. The Fund may also choose to redeem some or all of the Preferred Shares. Such redemption would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of the swap could result in the termination payment by or to the Fund. Early termination of a cap could result in the termination payment to the Fund.

The Fund will usually enter into swaps or caps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund intends to maintain in a segregated account with its custodian cash or liquid securities having a value at least equal to the Fund's net payment obligations under any swap transaction, marked to market daily. We would not enter into interest rate swap or cap transactions having a notional amount that exceeded the outstanding amount of the Fund's leverage.

MANAGEMENT OF THE FUND

The business and affairs of the Fund are managed under the direction of the Board of Directors. The Directors approve all significant agreements between the Fund and persons or companies furnishing services to it, including the Fund's agreement with its Investment Manager, administrator, custodian and transfer agent. The management of the Fund's day-to-day operations is delegated to its officers, the Investment Manager and the Fund's administrator, subject always to the investment objectives and policies of the Fund and to the general supervision of the Directors. The names and business addresses of the Directors and officers of the Fund and their principal occupations and other affiliations during the past five years are set forth under 'Management of the Fund' in the SAI.

INVESTMENT MANAGER

Cohen & Steers Capital Management, Inc., with offices located at 757 Third Avenue, New York, New York 10017, has been retained to provide investment advice, and, in general, to conduct the management and investment program of the Fund under the overall supervision and control of the Directors of the Fund. Cohen & Steers Capital Management, Inc., a registered investment adviser, was formed in 1986 and is a leading U.S. manager of portfolios dedicated to investments primarily in REITs with more than $ billion of assets under management as of   , 2003. Its current clients include pension plans, endowment funds and registered investment companies, including the Fund, Cohen & Steers Advantage Income Realty Fund, Inc., Cohen & Steers Premium Income Realty Fund, Inc., Cohen & Steers REIT and Preferred Income Fund, Inc. and Cohen & Steers Total Return Realty Fund, Inc., which are closed-end investment companies, and Cohen & Steers Institutional Realty Shares, Inc., Cohen & Steers Realty Shares, Inc., Cohen & Steers Special Equity Fund, Inc. and Cohen & Steers Equity Income Fund, Inc., which are open-end investment companies. Cohen & Steers Realty Shares, Inc. is currently the largest registered investment company that invests primarily in real estate securities. Cohen & Steers' client accounts are invested principally in real estate securities.

INVESTMENT MANAGEMENT AGREEMENT

Under its Investment Management Agreement with the Fund (the 'Investment Management Agreement'), the Investment Manager furnishes a continuous investment program for the Fund's portfolio, makes the day-to-day investment decisions for the Fund, and generally manages the Fund's investments in accordance with the stated policies of the Fund, subject to the general supervision of the Board of Directors of the Fund. The Investment Manager also performs certain administrative services for the Fund and provides persons satisfactory to the directors of the Fund to serve as officers of the Fund. Such officers, as well as certain other employees and directors of the Fund, may be directors, officers, or employees of the Investment Manager.

For its services under the Investment Management Agreement, the Fund pays the Investment Manager a monthly management fee computed at the annual rate of 0.85% of the average daily managed asset value of the Fund. Managed asset value is the net asset value of the Common Shares plus the liquidation preference of the Preferred Shares and the Series T, Series W, Series TH and Series F AMPS. This fee is higher than the fees incurred by many other investment companies but is comparable to fees paid by many registered management investment companies that invest primarily in real estate securities. In addition to the monthly management fee, the Fund pays all other costs and expenses of its operations, including compensation of its directors, custodian, transfer agency and dividend disbursing expenses, legal fees, expenses of independent auditors, expenses of repurchasing shares, expenses of issuing any Preferred Shares, expenses of preparing, printing and distributing stockholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any.

When the Fund is utilizing leverage, the fees paid to the Investment Manager for investment advisory and management services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's managed assets, which includes the liquidation preference of the

Preferred Shares and the Series T, Series W, Series TH and Series F AMPS.

The Fund's portfolio managers are:

Martin Cohen -- Mr. Cohen is a Director, President and Treasurer of the Fund. He is, and has been since its inception, President of Cohen & Steers Capital Management, Inc., the Fund's Investment Manager. Mr. Cohen is a 'controlling person' of the Investment Manager on the basis of his ownership of the Investment Manager's stock.

Robert H. Steers -- Mr. Steers is a Director, Chairman and Secretary of the Fund. He is, and has been since their inception, Chairman of Cohen & Steers Capital Management, Inc., the Fund's Investment Manager. Mr. Steers is a 'controlling person' of the Investment Manager on the basis of his ownership of the Investment Manager's stock.

Greg E. Brooks -- Mr. Brooks joined Cohen & Steers Capital Management, Inc., the Fund's investment adviser, as a Vice President in April 2000 and has been a Senior Vice President since January 2002. Prior to joining Cohen & Steers, Mr. Brooks was an investment analyst with another real estate securities investment manager. Mr. Brooks is a Certified Financial Analyst.

ADMINISTRATION AND SUB-ADMINISTRATION AGREEMENT

Under its Administration Agreement with the Fund, the Investment Manager provides certain administrative and accounting functions for the Fund, including providing administrative services necessary for the operations of the Fund and furnishing office space and facilities required for conducting the business of the Fund.

In accordance with the Administration Agreement and with the approval of the Board of Directors of the Fund, the Fund has entered into an agreement with State Street Bank as sub-administrator under a fund accounting and administration agreement (the 'Sub-Administration Agreement'). Under the Sub-Administration Agreement, State Street Bank has assumed responsibility for certain fund administration services.

Under the Administration Agreement, the Fund pays the Investment Manager an amount equal to on an annual basis 0.02% of the Fund's managed assets. Under the Sub-Administration agreement, the Fund pays State Street Bank a monthly administration fee. The sub-administration fee paid by the Fund to State Street Bank is computed on the basis of the managed assets in the Fund at an annual rate equal to 0.040% of the first $200 million in assets, 0.030% of the next $200 million, and 0.015% of assets in excess of $400 million, with a minimum fee of $120,000. The aggregate fee paid by the Fund and the other funds advised by the Investment Manager to State Street Bank is computed by multiplying the total number of funds by each break