PROSPECTUS

6,667,000 Shares
Cohen & Steers Total Return Realty Fund, Inc.
Common Stock

Cohen & Steers Total Return Realty Fund, Inc. (the "Fund") is a recently-organized, non-diversified, closed-end management investment company. The Fund's investment objective is to achieve a high total return through investment in real estate securities. The Fund will seek both current income and capital appreciation (realized and unrealized) with approximately equal emphasis. Under normal circumstances, the Fund will invest at least 75% of its total assets in the equity securities of real estate companies. Up to 25% of the Fund's total assets may be invested in debt securities issued or guaranteed

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Prior to this offering there has been no public market for Shares of the Fund's common stock. Shares of closed-end investment companies have in the past frequently traded at discounts from their net asset value. The risks associated with this characteristic of closed-end investment companies may be greater for investors expecting to sell shares of a closed-end investment company soon after the completion of an initial public offering of the company's shares.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

	Price to Public	Sales Load(1)(2)	Proceeds to Fund(3)
Per Share	$15.00	$.90	$14.10
Total(4)	$100,005,000	$6,000,300	$94,004,700

(1) The Fund and the Fund's investment adviser have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933. See "Underwriting."

(2) The Fund's investment adviser has agreed to reimburse or pay the Underwriters additional amounts under certain circumstances. See "Underwriting."

(3) Before deducting organizational and offering expenses payable by the Fund estimated at $64,051 and $938,530, respectively.

(4) The Fund has granted the several Underwriters an option to purchase up to an additional 1,000,050 Shares to cover over-allotments. If all of such Shares are purchased, the total Price to Public, Sales Load and Proceeds to Fund will be $115,005,750, $6,900,345 and $108,105,405, respectively. See "Underwriting."

The Shares are offered by the several Underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the Underwriters. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the Shares will be made in New York, New York on or about September 24, 1993.

Merrill Lynch & Co.

A.G. Edwards & Sons, Inc.

PaineWebber Incorporated

Prudential Securities Incorporated

The date of this Prospectus is September 17, 1993.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

(Continued from cover)

by real estate companies. The Fund's investment adviser believes that shares of real estate investment trusts currently offer significant opportunities for total return and initially intends to invest the Fund's assets primarily in these securities. There can be no assurance that the Fund will achieve its investment objective. The Shares have been approved for listing on the New York Stock Exchange under the symbol "RFI."

Cohen & Steers Capital Management, Inc. is the Fund's investment adviser. The administrator of the Fund is Middlesex Administrators L.P. The telephone number for shareholder services is (800) 688-0928 or (609) 282-0928. The Fund's address is 757 Third Avenue, New York, New York 10017, and its telephone number is (212) 832-3232.

For a description of risks relating to the securities in which the Fund intends to invest, and certain risk factors arising from the Fund's proposed investment strategies, see "Investment Objective and Policies" and "Risk Factors and Special Considerations."

Investors are advised to read this Prospectus, which contains information about the Fund that investors should know before investing, and to retain it for future reference.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. Unless otherwise indicated, the information in this Prospectus assumes that the Underwriters' over-allotment option will not be exercised. Investors should carefully consider the information set forth under the heading "Risk Factors and Special Considerations."

The Fund	Cohen & Steers Total Return Realty Fund, Inc. (the "Fund") is a recently-organized, non-diversified, closed-end management investment company.
The Offering	The Fund is offering 6,667,000 shares of common stock (the "Shares") through a group of underwriters (the "Underwriters") led by Merrill Lynch, Pierce, Fenner & Smith Incorporated, A.G. Edwards and Sons, Inc., PaineWebber Incorporated, and Prudential Securities Incorporated. The Underwriters have been granted an option to purchase up to 1,000,050 additional Shares solely to cover over-allotments, if any. The initial public offering price is $15.00 per Share. See "Underwriting."
Investment Objective and Policies	The Fund's investment objective is to achieve a high total return through investment in real estate securities. The Fund will seek both current income and capital appreciation (realized and unrealized) with approximately equal emphasis. The Fund's investment adviser believes that shares of real estate investment trusts which qualify as such for U.S. federal income tax purposes (commonly referred to as "REITs") currently offer significant opportunities for total return and initially intends to invest the Fund's assets primarily in these securities. There can be no assurance that the Fund's investment objective will be achieved. See "Investment Objective and Policies" and "Use of Proceeds." Under normal circumstances, the Fund will invest at least 75% of its total assets in the equity securities of real estate companies. Such equity securities will consist of (i) common shares (including shares and units of beneficial interest of REITs), (ii) rights or warrants to purchase common shares, (iii) securities convertible into common shares where the conversion feature represents, in the investment adviser's view, a significant element of the securities' value, and (iv) preferred shares. For purposes of the Fund's 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 that has at least 50% of its assets in such real estate (such as REITs). See "Investment Objective and Policies—General."

Investment Environment and Strategies. The Fund's investment adviser believes that developments over the past several years have caused the real estate industry to become reliant on the public markets as a primary source of capital. Consequently, many publicly-traded real estate companies, as a result of their access to the capital markets, have been able to acquire property at historically low prices and high current returns. In the investment adviser's opinion, this phenomenon places publicly-traded real estate companies at a distinct advantage over most other participants in the real estate industry and in a position to experience above average growth in the current environment.

The Fund may invest without limit in shares of REITs. REITs invest primarily in income producing real estate or real estate-related loans or interests and are generally required to distribute to shareholders at least 95% of their taxable income (other than net capital gains) for each year. A REIT generally is not subject to U.S. federal income tax on income distributed to shareholders. The shares of the REITs in which the Fund typically will invest are traded on stock exchanges. Such REITs are subject to the requirements of the federal securities laws and the rules of any stock exchanges on which their shares are traded as to such matters as financial reporting, corporate governance and disclosure of material business developments.

Up to 25% of the Fund's total assets may be invested in debt securities issued or guaranteed by real estate companies. See "Investment Objective and Policies—Debt Securities." The Fund may invest up to 10% of its total assets in securities for which there is no readily available secondary market. See "Investment Objectives and Policies—Illiquid Securities."

Investment Adviser.................. Cohen & Steers Capital Management, Inc. (the "Adviser") is the Fund's investment adviser. The Adviser, which was formed in 1986, is a leading firm specializing in the management of real estate securities portfolios and as of August 11, 1993 had approximately $400 million in assets under management. Its clients include pension plans, endowment funds and mutual funds. All of the Adviser's client accounts are invested principally in real estate securities. See "Investment Adviser."

Administrator	Middlesex Administrators L.P. (the "Administrator") will act as the Fund's administrator. The Administrator is an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, one of the Underwriters, and will assist the Fund with operational and administrative services. See "Administrator."
Fees and Expenses	The Fund will pay the Adviser a monthly fee computed at the annual rate of 0.70% of the Fund's average weekly net assets. See "Advisory Agreement." The Fund will pay the Administrator a monthly fee computed at the annual rate of 0.20% of the Fund's average weekly net assets. See "Administrator." The aggregate fees payable to the Adviser and the Administrator are higher than the management fees paid by most investment companies, but are comparable to fees paid by many recently-organized, publicly-offered, closed-end management investment companies with comparable investment objectives.
Listing and Symbol..................	The Shares have been approved for listing on the New York Stock Exchange under the symbol "RFI."
Dividends and Distributions	The Fund intends to pay monthly dividends from investment company taxable income. In addition, the Fund currently expects that a portion of its dividends will consist of amounts in excess of investment company taxable income derived from the non-taxable components of the cash flow from the real estate underlying the Fund's portfolio investments. These amounts would be considered a return of capital and thus would not be subject to current taxation. The first monthly dividend is expected to be declared and paid approximately 60 days after delivery of the Shares offered hereby. Net capital gains (i.e., the excess of net long-term capital gain over net short-term capital loss), if any, will be distributed to shareholders at least annually and will be taxable as long-term capital gain if designated by the Fund as a capital gain dividend. To the extent practicable, the Fund will attempt to pay monthly distributions to shareholders at a constant rate, which may be adjusted from time to time by the Fund's Board of Directors, although there can be no assurance that it will be able to do so. In order to maintain the stability of such monthly distributions, short-term capital gains, and amounts representing a return of the shareholder's capital, may from time to time be included in monthly distributions.
Dividend Reinvestment Plan	Shareholders will receive their dividends in cash unless they elect to have their dividends and other distributions from the

Fund invested in additional Shares purchased in the open market through the Fund's Dividend Reinvestment Plan. Shareholders whose Shares are held in the name of a broker or nominee should contact the broker or nominee to confirm that the reinvestment service is available. See "Dividends and Distributions" and "Taxation."

Annual Tender Offers and Repurchases of Shares; Possible Conversion to Open-End Status ....

Shares of closed-end investment companies frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that the Fund's net asset value could decrease as a result of its investment activities and may be greater for investors expecting to sell their Shares in a relatively short period following completion of this offering. The Fund cannot predict whether its Shares will trade at, below or above net asset value. In recognition of the possibility that the Fund's Shares may trade at a discount to net asset value, the Board of Directors of the Fund has determined that annual tender offers and periodic open market repurchases for the Shares may help reduce any market discount from net asset value that may develop. In this connection, the Board of Directors of the Fund has committed to conduct a tender offer for Shares on an annual basis. Under certain circumstances, however, the Fund cannot accept tenders. A tender offer will be conducted during the first quarter of each calendar year commencing in 1995 unless, during the period of 12 calendar weeks prior to a date in the first quarter designated by the Board of Directors no later than the end of the preceding calendar quarter, Shares have traded on the NYSE at an average discount from net asset value of less than 3%, or at an average premium, determined on the basis of the discount or premium, as the case may be, as of the last trading day in each week during such 12 week period. In addition, the Board will consider from time to time more frequent tender offers for and/or open market repurchases of Fund Shares. There are certain risks associated with tender offers and repurchases. See "Annual Tender Offers and Share Repurchases; Possible Conversion to Open-End Status."

The Fund may be converted to an open-end investment company at any time by a vote of 66⅔% of the outstanding Shares. See "Annual Tender Offers and Share Repurchases; Possible Conversion to Open-End Status."

Custodian, Transfer Agent, Dividend Disbursing Agent and Registrar . . . The Bank of New York will act as custodian, transfer agent, dividend disbursing agent and registrar for the Fund. See "Custodian, Transfer Agent, Dividend Disbursing Agent and Registrar."

Risk Factors and Special Considerations . . . . The Fund is 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 the Fund will achieve its investment objective. As a recently-organized entity, the Fund has no operating history. See "The Fund."

Investment in Real Estate Securities. The Fund may be subject to risks similar to those associated with the direct ownership of real estate (in addition to securities markets risks) because of its policy of concentration in the securities of companies in the real estate industry (including REITs). These include declines in the value of real estate generally, risks related to general and local economic conditions, dependency on the management skill of both the officers of the REITs and the managers of the underlying properties, possible lack of diversification, possible lack of availability of financing, changes in interest rates, overbuilding, oversupply of properties for sale, extended vacancies of properties, increased competition, increases in property taxes and operating expenses, changes in zoning laws, environmental clean-up costs, liability to third parties for damages resulting from environmental problems, casualty or condemnation losses, natural disasters, limitations on rents, and changes in neighborhood values and the appeal of properties to tenants. Each of the foregoing factors, as well as factors affecting the securities markets generally, may affect the values of the securities in which the Fund invests. In addition, REITs could possibly fail to qualify for tax free pass-through of income under the Internal Revenue Code of 1986, as amended (the "Code").

Investors should note that many REITs utilize "leverage" (i.e., borrow funds for investment). Leverage increases both investment opportunity and investment risk and could cause a REIT's operations, or the market value of its shares, to be adversely affected in periods of rising interest rates. See "Investment Objective and Policies—Borrowings and Leverage" and "Risk Factors and Special Considerations—Use of Leverage."

Investment in Debt Securities. The value of the Fund's investments in debt securities, if any, will generally fluctuate inversely with changes in interest rates. The Fund may invest in unrated debt securities or in debt securities rated in the lower ratings categories by Standard & Poor's Corporation ("S&P") or by Moody's Investors Service, Inc. ("Moody's"). Securities rated lower than BBB by S&P or lower than Baa by Moody's are considered predominantly speculative and are commonly known as "high yield" or "junk bonds." See "Investment Objective and Policies—Debt Securities."

Borrowing and Leverage. Although it has no present intention of doing so, the Fund has reserved the right to borrow for investment purposes in an amount up to 33⅓% of its total assets, which constitutes a form of leverage. Leverage tends to exaggerate the effect on the Fund's net assets of movements in the market prices of the Fund's investment assets and may require liquidation of portfolio positions when it is not advantageous to do so. See "Investment Objective and Policies—Borrowings and Leverage" and "Risk Factors and Special Considerations—Use of Leverage" for additional information.

Non-Diversified Status. Because the Fund, as a non-diversified investment company, may invest in a smaller number of individual issuers than a diversified investment company, an investment in the Fund may, under certain circumstances, present greater risk to an investor than an investment in a diversified company. The Fund intends to comply with the diversification requirements of the Code applicable to regulated investment companies. See "Risk Factors and Special Considerations—Non-Diversified Status" and "Taxation."

Market Price Discount From Net Asset Value. Shares of closed-end investment companies frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that the Fund's net asset value could decrease as a result of its investment activities and may be greater for investors expecting to sell their Shares in a relatively short period following completion of this offering. The Fund cannot predict whether the Shares will trade at, above or below net asset value. The value of the Fund's portfolio will fluctuate depending upon market factors.

Changes in the value of securities held by the Fund may affect the Fund's net asset value and the market price of the Shares. See "Risk Factors and Special Considerations—Market Price Discount From Net Asset Value" and "Annual Tender Offers and Share Repurchases; Possible Conversion to Open-End Status."

Anti-Takeover Provisions. Certain provisions of the Fund's Articles of Incorporation and By-Laws could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to modify its structure. The provisions may have the effect of depriving shareholders of an opportunity to sell their Shares at a premium over prevailing market prices and may have the effect of inhibiting the Fund's conversion to an open-end investment company. See "Certain Provisions of the Articles of Incorporation and By-Laws."

Given the risks described above, an investment in the Shares may not be appropriate for all investors. Investors should carefully consider their ability to assume these risks before making an investment in the Fund.

FUND EXPENSES

The following tables are intended to assist Fund investors in understanding the various costs and expenses associated with investing in the Fund.

Shareholder Transaction Expenses

Sales Load (as a percentage of offering price)	6.00%
Dividend Reinvestment Plan Fees	None

Annual Expenses (as a percentage of net assets)*

Management Fees	0.70%
Interest Payments on Borrowed Funds**	None
Administrative Fees	0.20%
Other Expenses (audit, legal, shareholder services, transfer agent and custodian)	0.44%
Total Annual Expenses	1.34%

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* See "Advisory Agreement" for additional information. "Other Expenses" have been estimated for the current fiscal year.

** Although it has no present intention of doing so, the Fund has reserved the right to borrow money for leverage.

Hypothetical Example

An investor would directly or indirectly pay the following expenses on a $1,000 investment in the Fund, assuming (i) a 5% annual return and (ii) reinvestment of all dividends and distributions at net asset value:

One Year	Three Years	Five Years	Ten Years
$ 73	$ 100	$ 129	$ 212

This "Hypothetical Example" assumes that the percentage amounts listed under Annual Expenses remain the same in the years shown. The above tables and the assumption in the Example of a 5% annual return are required by regulations of the Securities and Exchange Commission (the "Commission") applicable to all investment companies. **The assumed 5% annual return and annual expenses should not be considered a representation of actual or expected Fund performance or expenses, both of which may vary.** For more complete descriptions of certain of the Fund's costs and expenses, see "Advisory Agreement."

THE FUND

Cohen & Steers Total Return Realty Fund, Inc. is a recently-organized, non-diversified, closed-end management investment company. The Fund was organized as a Maryland corporation on September 4, 1992 and is registered as an investment company under the Investment Company Act of 1940 (the "1940 Act"). As a recently-organized entity, the Fund has no operating history. The Fund's principal office is located at 757 Third Avenue, New York, New York 10017, and its telephone number is (212) 832-3232.

USE OF PROCEEDS

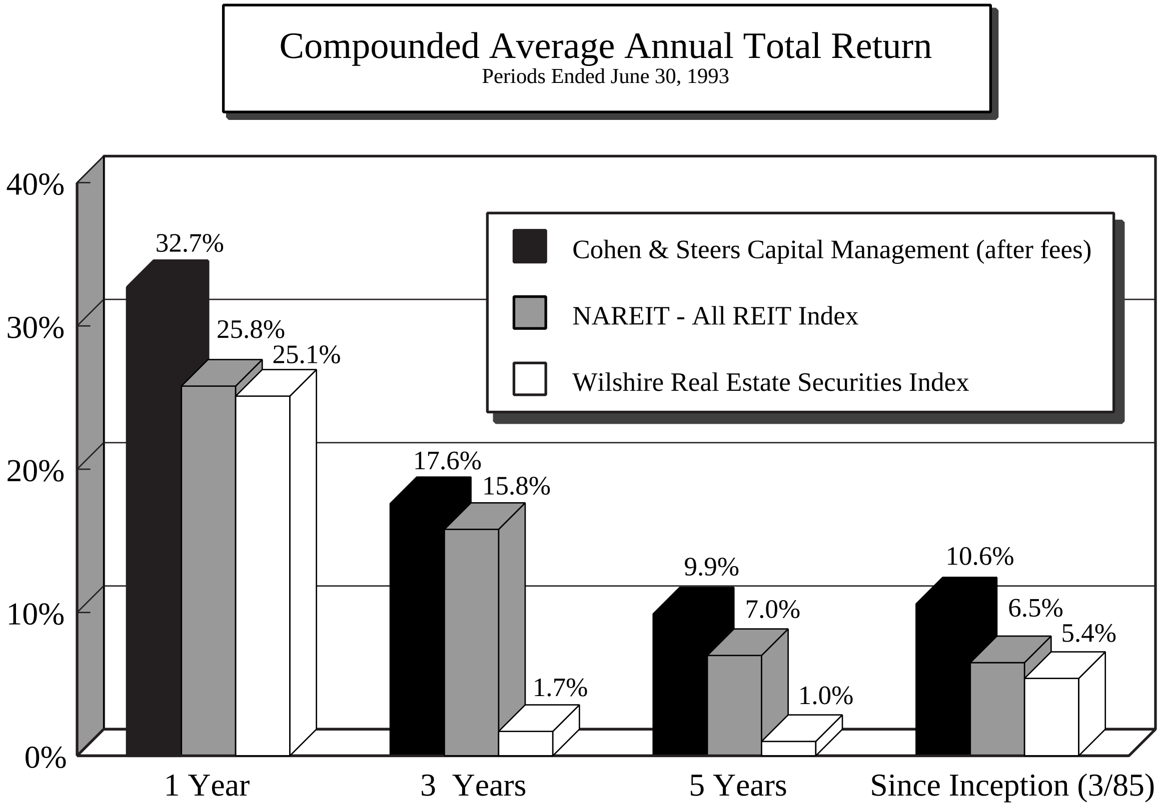
The net proceeds of this offering, after deduction of the sales load and organization and offering expenses (estimated to be $93,002,119 or $107,102,824, assuming exercise of the over-allotment option in full), will be invested in accordance with the policies set forth under "Investment Objective and Policies". A portion of the organization and offering expenses of the Fund has been advanced by the Adviser and will be repaid by the Fund upon closing of this offering.

The Fund estimates that the net proceeds of this offering will be fully invested in accordance with the Fund's investment objective and policies within six months of the initial public offering. Pending such investment, the proceeds may be invested in U.S. Government securities or high quality, short-term money market instruments. See "Investment Objective and Policies."

INVESTMENT ADVISER

Cohen & Steers Capital Management, Inc., 757 Third Avenue, New York, New York 10017, a registered investment adviser, serves as investment adviser to the Fund. The Adviser was formed in 1986 and is a leading firm specializing in the management of real estate securities portfolios. At August 11, 1993, the Adviser managed client assets totaling approximately $400 million. Its clients include pension plans, endowment funds and mutual funds, including Cohen & Steers Realty Income Fund, Inc., an American Stock Exchange-listed closed-end investment company. The Adviser's investment professionals are among the most experienced real estate investors in the nation and include Robert H. Steers and Martin Cohen. All of the Adviser's client accounts are invested principally in real estate securities.

The following chart shows the compounded average annual returns for the one-year, three-year and five-year periods ended June 30, 1993, and since March 31, 1985 (inception) of all accounts that have been managed by the Adviser except for one account having income as a primary objective and capital appreciation as a secondary objective. All other accounts managed by the Adviser have the objective of total return. The chart does not reflect performance of the Fund, which is recently-organized and has no operating history. The performance of the Fund could differ significantly from that of the Adviser's other accounts. Importantly, investors should not rely on prior performance as an indication of the future performance of the Fund.



NOTES

1. The Adviser commenced operations in November 1986. Performance data prior to that date reflect the results of a mutual fund managed by the two principals of the Adviser beginning in March 1985 when they were employed by another firm.

2. Registered investment companies managed by the Adviser, including the Fund, are subject to certain regulatory and tax restrictions on investment that are not applicable to the Adviser's private accounts. Although these restrictions have not resulted in differing performance results for the two categories of accounts in the past, in the future the restrictions could cause registered investment companies managed by the Adviser to underperform its private accounts. The performance data

shown does not reflect the deduction of custody or other administrative fees from the Adviser's private accounts, which vary from client to client. The composite performance does, however, reflect the deduction of advisory fees paid by the Adviser's private accounts.

3. Compounded average annual total return is the constant rate of return per annum (compounded) during the measurement period that would produce the actual cumulative results during the period. Returns include changes in market prices as well as accrued investment income. All investment income is assumed to be reinvested in the indices or in additional shares of investment company clients of the Adviser.

4. The National Association of Real Estate Investment Trusts ("NAREIT") Index of All REITS is comprised of 152 real estate investment trusts.

5. The Wilshire Real Estate Securities Index is comprised of 77 companies operating in the real estate industry and includes REITs. This index does not include REITs with investments in health care facilities, which as a group have produced investment returns in recent years higher than the market as a whole. The Fund is likely to consider investing in REITs with investments in health care facilities.

INVESTMENT OBJECTIVE AND POLICIES

General

The Fund's investment objective is to achieve a high total return through investment in real estate securities. The Fund will seek both current income and capital appreciation (realized and unrealized) with approximately equal emphasis. There can be no assurance that the Fund's investment objective will be achieved. The Fund's investment objective cannot be changed without the approval of a majority of its outstanding voting securities. All of the Fund's policies, other than its investment objective and the investment limitations described below under "Investment Restrictions," may be changed by the Fund's Board of Directors without shareholder approval.

Under normal circumstances, the Fund will invest at least 75% of its total assets in the equity securities of real estate companies. Such equity securities will consist of (i) common shares (including shares and units of beneficial interest of REITs), (ii) rights or warrants to purchase common shares, (iii) securities convertible into common shares where the conversion feature represents, in the Adviser's view, a significant element of the securities' value, and (iv) preferred shares. For purposes of the Fund's 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 that has at least 50% of its assets in such real estate. The Adviser monitors the equity and debt securities of more than 250 companies, with an aggregate market capitalization in excess of $45 billion at June 30, 1993. Up to 25% of the Fund's total assets may be invested in debt securities issued or guaranteed by real estate companies and up to 10% of the Fund's total assets may be invested in securities for which there is no readily available secondary market. When, in the judgment of the Adviser, market or general economic conditions justify a temporary defensive position, the Fund may deviate from its investment objective and policies and invest all or any portion of its assets in high-grade debt securities, including corporate debt securities, U.S. government securities, and short-term money market instruments, without regard to whether the issuer is a real estate company. The Fund may also at any time invest funds awaiting investment or to pay dividends and other distributions to shareholders in short-term money market instruments.

Investment Environment and Strategies

The Adviser believes that developments over the past several years have caused the real estate industry to become reliant on the public markets as a primary source of capital. Consequently, many publicly-traded real estate companies, as a result of their access to the capital markets, have been able to acquire property at historically low prices and high current returns. In the Adviser's opinion, this phenomenon places publicly-traded real estate companies at a distinct advantage over most other participants in the real estate industry and in a position to experience above average growth in the current environment.

Recent Trends in the Industry. In the early- to mid-1980s, capital for real estate development and ownership was plentiful, and was provided by diverse sources such as individual and institutional investors as well as a large number of financial institutions such as commercial banks, savings and loan associations and insurance companies. This availability of capital led to new development of most major property types such as office buildings, industrial buildings, hotels and shopping centers in most major U.S. geographic regions. As a result of overbuilding, by the mid- to late-1980s vacancy rates of many properties rose to historically high levels, precipitating intense competition for tenants and declines in effective rental rates.

Aggravating the industry's condition were the Tax Reform Act passed by Congress in 1986, which eliminated most of the tax benefits of property ownership for individuals, and the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), which increased the capital requirements of banks and savings and loan institutions and effectively discouraged them from making additional loans and investments in real estate. Further, many institutions and property owners were forced to sell property in order to establish or maintain financial liquidity. These entities include the Resolution Trust Corporation ("RTC"), which was formed by the U.S. government to dispose of assets acquired from failed financial institutions.

The resultant withdrawal from the real estate market in recent years by many traditional financing sources culminated in a shortage of available capital. This capital shortage, combined with declining effective rents, led to declines in property values as the number of properties for sale exceeded the market's ability and willingness to purchase them. While relatively little capital is currently available for new development projects, many publicly-traded real estate companies have recently raised new capital in the debt and equity markets. Access to the capital markets has enabled these companies to retire or replace existing higher cost or floating rate debt, improve financial liquidity, and reduce their exposure to interest rate fluctuations. Many have also been able to purchase additional properties, often at prices which are well below replacement cost and at a substantial positive spread between their cost of capital and the initial cash return on investment. These acquisitions have contributed meaningful additional cash flows to these companies.

It is the Adviser's belief that real estate markets in many regions of the United States have begun to show signs of stabilization or recovery. Such signs include recent information with regard to occupancy rates, rental rates and property prices. It is also the Adviser's belief that, due to the continued absence of many of the traditional sources of financing, the real estate markets in general will continue to be subject to capital constraints. Accordingly, in the Adviser's opinion, favorable property acquisition and financing opportunities will continue to be available to publicly-traded real estate companies.

Recent Performance of Real Estate Securities. In contrast to the performance of the direct property market, real estate securities enjoyed substantial investment returns in 1991 and 1992, providing total returns of 35.7% and 12.2%, respectively, as measured by the NAREIT All REIT Index. This index continued to reflect positive results in 1993, showing a total return of 15.8% through June 30. This compares with a total return for the Standard & Poor's 500 ("S&P 500") Index of 30.3% in 1991, 7.6% in 1992 and 4.9% for the six months ended June 30, 1993. For information concerning the Adviser's performance record, see "Investment Adviser," above. It should be noted, however, that the NAREIT Index has not outperformed the S&P 500 Index in every historical period, that the securities in the indices do not have the same risk characteristics and that past performance is not necessarily indicative of future performance. In the Adviser's opinion, the recent performance of real estate securities has been the result of a combination of factors, including the rise in the stock and bond markets in general and the market's discounting of the prospects for above average cash flow growth for the premier companies in the industry. The attractiveness of real estate securities in recent years can also be related to their high current dividend yields, which are competitive with many fixed income alternatives and exceed those of most equity-oriented investments and the stock market in general. Real estate securities possess many of the beneficial characteristics of real estate investment, as well as the risks, and also provide a high degree of diversification, investment liquidity and market pricing.

As a result of the foregoing, the Adviser believes that substantial opportunities for long-term total return will be presented by existing real estate companies that have access to the capital markets as well as the organizational capabilities to acquire and efficiently manage additional properties. The Adviser also believes that the public market will continue to offer an attractive opportunity for investors in new real estate companies that possess these same characteristics.

Investment Strategies. The Adviser intends to maintain broad diversification among various property sectors and geographic regions and, within each property sector, to diversify the Fund's holdings among a sufficient number of individual issues. In addition, the Adviser will regularly monitor the liquidity and volatility of its holdings and, whenever possible, seek to maintain a low level of portfolio volatility compared to the stock market in general.

In making purchase and sale decisions about individual issues, the Adviser will pursue a disciplined investment approach. This will incorporate the application of certain investment selection criteria including standards with regard to the company's organizational and management depth, property quality, track record of profitability, balance sheet strength, access to capital markets, financial leverage and growth potential.

Real Estate Investment Trusts

The Fund may invest without limit in shares of REITs. For the reasons outlined above under "Investment Environment and Strategies," the Adviser believes that shares of REITs currently offer significant opportunities for total return and initially intends to invest the Fund's assets primarily in these securities. REITs invest primarily in income producing real estate or real estate-related loans or interests and are generally required to distribute to shareholders at least 95% of their taxable income (other than net capital gains) for each year. A REIT generally is not subject to U.S. federal income tax on income distributed to shareholders. The shares of the REITs in which the Fund typically will invest are traded on stock exchanges. Such REITs are subject to the requirements of the federal securities laws and the rules of any stock exchanges on which their shares are traded as to such matters as financial reporting, corporate governance and disclosure of material business developments.

Debt Securities

Up to 25% of the Fund's total assets may be invested in debt securities (which do not include for purposes of this investment policy convertible debt securities which the Adviser believes have attractive equity characteristics) issued or guaranteed by real estate companies. The Fund does not intend to invest in mortgage-related securities derived from residential or commercial mortgages. The Fund may invest in unrated debt securities or in debt securities rated lower than BBB by S&P or lower than Baa by Moody's, which may involve greater risks of loss of income and principal than higher-rated securities, are speculative in nature and are commonly known as "high yield" or "junk bonds." See "Risk Factors and Special Considerations—Investment in Debt Securities."

Illiquid Securities

The Fund may invest up to 10% of its total assets in securities for which there is no readily available secondary market, including securities acquired in private placements, and securities issued by joint ventures and partnerships. Securities issued in private placements are "restricted securities" which are subject to restrictions and, possibly, delays on resale. Restricted securities eligible for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933 that are determined to be liquid by the Board of Directors, or by the Adviser under guidelines approved by the Directors, are not subject to this limitation. The Adviser has no present intention of investing any portion of the Fund's assets in illiquid securities, but the Fund has reserved the right to purchase illiquid securities in order to retain the flexibility to take advantage of specific opportunities that might arise from time to time.

Borrowings and Leverage

Although it has no present intention of doing so, the Fund may borrow money for investment purposes in an amount up to 33⅓% of its total assets. The Fund also may borrow money through the issuance of short-term debt securities or obtain additional funds for investment by issuing shares of preferred stock. Borrowing for investment purposes creates a "leveraged" capital structure, in which the Fund's obligations under its borrowing commitments rank senior in preference to the Fund's common stock, and is considered a speculative technique. The techniques described above may be deemed to involve the issuance of "senior securities" by the Fund, and the Fund's ability to issue such senior securities or borrow money is limited by provisions of the 1940 Act. The Fund may also borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions, which might otherwise require untimely dispositions of the Fund's securities. Temporary borrowings by the Fund for administrative purposes and not in excess of 5% of the value of the Fund's total assets at the time the loan is made are not deemed to be "senior securities" and are not subject to the restrictions described below.

The Fund would borrow for leveraging purposes when an investment opportunity arises but the Adviser believes that it is not appropriate to liquidate any existing investments. The Fund will only borrow when the Adviser believes that the cost of borrowing to carry the assets to be acquired through leverage would be lower than the return earned by the Fund on its longer-term portfolio investments. Should the differential between interest rates on borrowed funds and the return from investment assets purchased with such funds narrow, the Fund would realize less of a positive return, with the additional risk that, during periods of adverse market conditions, the market value of the Fund's entire portfolio holdings (including those acquired through leverage) may decline far in excess of incremental returns the Fund may have achieved in the interim.

Under the 1940 Act, the Fund is not permitted to incur indebtedness or issue senior securities in excess of certain limits expressed as asset coverage requirements and limitations on the ability of the Fund to declare dividends on its common stock while borrowings are at certain levels. Under these limits, the Fund may not declare dividends or other distributions to its holders of common stock at any time when the payment of such dividend or distribution would cause the ratio between the Fund's total assets (including borrowings) and the total amount borrowed to fall below 300%. If the Fund has preferred stock outstanding, the Fund may not declare dividends or other distributions to its holders of common stock at any time when the payment of such dividend or distribution would cause the ratio between the Fund's total assets and the liquidation value of such preferred stock to fall below 200%.

If the asset coverage for senior securities or other borrowings of the Fund declines below the limits specified in the 1940 Act, the Fund may be required to sell a portion of its investments when it may not be advantageous to do so. Sales of investments required to meet asset coverage tests imposed by the 1940 Act could also cause the Fund to lose its status as a regulated investment company. In addition, if the Fund were unable to make adequate distributions to shareholders because of asset coverage or other restrictions, it could fail to qualify as a regulated investment company for federal income tax purposes and, even if it did so qualify, it could become liable for income and excise tax on the portion of its earnings which are not distributed on a timely basis in accordance with applicable provisions of Subchapter M. See "Taxation."

The Fund's willingness to borrow money and issue new securities for investment purposes, and the amount it will borrow, will depend on many factors, the most important of which are investment outlook, market conditions and interest rates. Successful use of a leveraging strategy depends on the Adviser's ability to predict correctly interest rates and market movements, and there is no assurance that a leveraging strategy will be successful during any period in which it is employed.

The Fund may also borrow money to finance the repurchase of and/or tender for its Shares.

RISK FACTORS AND SPECIAL CONSIDERATIONS

The Fund is 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 the Fund will achieve its investment objective. As a recently-organized entity, the Fund has no operating history.

Investment in Real Estate Securities

As a result of its investment in securities issued by real estate companies (including REITs), the Fund may be subject to risks similar to those associated with the direct ownership of real estate (in addition to securities markets risks) because of its policy of concentration in the securities of companies in the real estate industry. These include declines in the value of real estate generally, risks related to general and local economic conditions, dependency on the management skill of both the officers of the REITs and the managers of the underlying properties, possible lack of diversification, possible lack of availability of financing, changes in interest rates, overbuilding, oversupply of properties for sale, extended vacancies of properties, increased competition, increases in property taxes and operating expenses, changes in zoning laws, environmental clean-up costs, liability to third parties for damages resulting from environmental problems, casualty or condemnation losses, natural disasters, limitations on rents, and changes in neighborhood values and the appeal of properties to tenants. Each of the foregoing factors, as well as factors affecting the securities markets generally, may affect the values of the securities in which the Fund invests. In addition, REITs could possibly fail to qualify for tax free pass-through of income under the Code.

Investors should note that many REITs utilize "leverage" (i.e., borrow funds for investment). Leverage increases both investment opportunity and investment risk and could cause a REIT's operations, or the market value of its shares, to be adversely affected in periods of rising interest rates. See "Investment Objective and Policies—Borrowings and Leverage," above, and "Use of Leverage," below.

Investment in Debt Securities

The value of the Fund's investments in debt securities, if any, will change as interest rates fluctuate. When interest rates decline, the values of such securities generally can be expected to increase and when interest rates rise, the values of such securities can generally be expected to decrease. Unlike mortgage-related securities derived from residential mortgages, the debt securities in which the Fund may invest are not subject to prepayment risk other than through contractual call provisions. The lower-rated and comparable unrated debt securities in which the Fund may invest are subject to greater risks of loss of income and principal than are higher-rated fixed income securities. Normally, securities that are rated lower than Baa by Moody's or lower than BBB by S&P provide current yields superior to those of more highly-rated securities, but involve greater risks (including the possibility of default or bankruptcy of the issuers of such securities) and are speculative in nature. Securities rated lower than Baa by Moody's and lower than BBB by S&P are generally known as "high yield" or "junk bond" securities. Securities having the lowest rating for non-subordinated debt instruments assigned by Moody's or S&P (i.e., rated C by Moody's or CCC or lower by S&P) are considered to have extremely poor prospects of ever attaining any real investment standing, to be unlikely to have the capacity to pay interest and repay principal when due in the event of adverse business, financial or economic conditions, and/or to be in default or not current in the payment of interest or principal. See Appendix A for a description of the rating policies of Moody's and S&P. The market value of lower-rated securities generally tends to reflect the market's perception of the creditworthiness of the issuer and short-term market developments to a greater extent than more highly-rated securities, which reflect primarily fluctuations in general levels of interest rates.

Use of Leverage

Although it has no present intention of doing so, the Fund may borrow money for investment purposes in an amount up to 33⅓% of its total assets. The Fund also may raise additional funds for investment purposes by the issuance of short-term debt or preferred stock. Any of these practices would result in leveraging of the Fund's portfolio. Borrowings are obligations of the Fund senior in preference to the Fund's common stock. Because the investment risk associated with investment assets purchased with borrowed funds is borne solely by the holders of the Fund's common stock, adverse movements in the price of the Fund's portfolio holdings would have a more severe effect on the Fund's net asset value than if the Fund were not leveraged. See "Investment Objective and Policies—Borrowings and Leverage".

Leverage creates risks for shareholders in the Fund, including the likelihood of greater volatility of net asset value and market price of Shares, and the risk that fluctuations in interest rates on borrowings or in the dividend rates on any preferred stock may affect the yield to shareholders. If the income from the securities purchased with borrowed funds is not sufficient to cover the cost of leverage, the net income of the Fund will be less than if leverage had not been used, and therefore the amount available for distribution to shareholders as dividends will be reduced. In such an event, the Fund may nevertheless determine to maintain its leveraged position in order to avoid capital losses on securities purchased with the leverage.

Non-Diversified Status

The Fund is classified as a "non-diversified" investment company under the 1940 Act, which means the Fund is not limited by the 1940 Act in the proportion of its assets that may be invested in the securities of a single issuer. However, the Fund intends to conduct its operations so as to qualify as a regulated investment company for purposes of the Code, which generally will relieve the Fund of any liability for federal income tax to the extent its earnings are distributed to shareholders. See "Taxation." To so qualify, among other requirements, the Fund will limit its investments so that, at the close of each quarter of the taxable year, (i) not more than 25% of the market value of the Fund's total assets will be invested in the securities of a single issuer, and (ii) with respect to 50% of the market value of its total assets, not more than 5% of the market value of its total assets will be invested in the securities of a single issuer and the Fund will not own more than 10% of the outstanding voting securities of a single issuer. The Fund's investments in securities issued by the U.S. Government, its agencies and instrumentalities are not subject to these limitations. Because the Fund, as a non-diversified investment company, may invest in a smaller number of individual issuers than a diversified investment company, an investment in the Fund may present greater risk to an investor than an investment in a diversified company.

Market Price Discount From Net Asset Value

Shares of closed-end investment companies frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that the Fund's net asset value could decrease as a result of its investment activities and may be greater for investors expecting to sell their Shares in a relatively short period following completion of this offering. The net asset value of the Shares will be reduced immediately following the offering as a result of the payment of the sales load and organizational and offering costs. Whether investors will realize gains or losses upon the sale of the Shares will depend not upon the Fund's net asset value but entirely upon whether the market price of the Shares at the time of sale is above or below the investor's purchase price for the Shares. Because the market price of the Shares will be determined by factors such as relative supply of and demand for Shares in the market, general market and economic conditions, and other factors beyond the control of the Fund, the Fund cannot predict whether the Shares will trade at, below or above net asset value or at, below or above the initial public offering price.

Anti-Takeover Provisions

Certain provisions of the Fund's Articles of Incorporation and By-Laws may have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change its structure. These provisions may also have the effect of depriving shareholders of an opportunity to sell their Shares at a premium over prevailing market prices. These include provisions for staggered terms of office for Directors, super-majority voting requirements for merger, consolidation, liquidation, termination and asset sale transactions, amendments to the Articles of Incorporation, and conversion to open-end status. See “Description of Shares” and “Certain Provisions of the Articles of Incorporation and By-Laws.”

INVESTMENT RESTRICTIONS

The Fund has adopted the following investment restrictions, which may not be changed without the approval of the holders of a majority of the Fund’s outstanding voting securities as defined below. The percentage limitations set forth below, as well as those described elsewhere in this Prospectus, apply only at the time an investment is made or other relevant action is taken by the Fund.

The Fund will not:

1. Purchase more than 10% of the voting securities of any issuer;

2. Make loans except through the purchase of debt obligations in accordance with its investment objective and policies;

3. Issue senior securities (including borrowing money for other than temporary purposes) except in conformity with the limits set forth in the 1940 Act; or pledge its assets other than to secure such issuances or borrowings or in connection with permitted investment strategies; notwithstanding the foregoing, the Fund may borrow up to an additional 5% of its total assets for temporary purposes;

4. Pledge, hypothecate, mortgage or otherwise encumber its assets, except to secure permitted borrowings;

5. Participate on a joint or joint and several basis in any securities trading account;

6. Invest in companies for the purpose of exercising control;

7. Make short sales of securities or maintain a short position, unless at all times when a short position is open the Fund owns an equal amount of such securities or securities convertible into or exchangeable for, without payment of any further consideration, securities of the same issue as, and equal in amount to, the securities sold short (“short sales against the box”), and unless not more than 10% of the Fund’s net assets (taken at market value) is held as collateral for such sales at any one time (it is the Fund’s present intention to make such sales only for the purpose of deferring realization of gain or loss for Federal income tax purposes); or

8. (i) Purchase or sell real estate, except that the Fund may purchase securities issued or guaranteed by real estate companies and will, as a matter of fundamental policy, concentrate its investments in such securities; (ii) purchase or sell commodities or commodity contracts; (iii) invest in interests in oil, gas, or other mineral exploration or development programs; (iv) purchase securities on margin, except for such short-term credits as may be necessary for the clearance of transactions and except for borrowings permitted under investment restriction number 3; or (v) act as an underwriter of securities, except that the Fund may acquire restricted securities under circumstances in which, if such securities were sold, the Fund might be deemed to be an underwriter for purposes of the Securities Act of 1933.

The foregoing restrictions are fundamental policies that may not be changed without the approval of a majority of the Fund’s outstanding voting securities. As used in this Prospectus, a majority of the Fund’s outstanding voting securities means the lesser of (i) more than 50% of its outstanding voting securities or (ii) 67% or more of the voting securities present at a meeting at which more than 50% of the outstanding voting securities are present or represented by proxy. Fund policies which are not fundamental may be modified by the Board of Directors if, in the reasonable exercise of its business judgment, modification is determined to be necessary or appropriate to carry out the Fund’s objectives.

DIRECTORS AND OFFICERS

The overall management of the business and affairs of the Fund is vested with the Board of Directors. The management of the Fund's day-to-day operations is delegated to its officers, the Adviser and the Administrator, subject to the investment objectives and policies of the Fund and to general supervision by the Board of Directors. The Directors and officers of the Fund and their ages and principal occupations during the past five years are set forth below.

Name, Age and Address	Title	Principal Occupations During the Past Five Years and Other Affiliations
*Robert H. Steers, 40 757 Third Avenue New York, New York	Director, Chairman and Secretary	Chairman of the Adviser since 1986. Chairman of Cohen & Steers Realty Income Fund, Inc. ("CSRI"), an American Stock Exchange-listed closed-end investment company, and Cohen & Steers Realty Shares, Inc. ("CSRS").
*Martin Cohen, 44 757 Third Avenue New York, New York	Director, President and Treasurer	President of the Adviser since 1986. President of CSRI and CSRS.
Gregory C. Clark, 46 P.O. Box 5697 Snowmass Village, Colorado	Director	President of Wellspring Management Group. From 1987 to 1990, Mr. Clark was Executive Vice President—Investments and Vice Chairman of the Investment Policy and Strategy Committee of Bessemer Trust Co.
George Grossman, 39 17 Elm Place Rye, New York	Director	Attorney at law. Formerly of counsel to Pircher, Nichols & Meeks. Prior to that Mr. Grossman was associated with Stroock & Stroock & Lavan.
Arlen Kantarian, 40 1260 Avenue of the Americas New York, New York	Director	Executive Vice President of Radio City Music Hall Productions, Inc.
Jeffrey H. Lynford, 46 375 Park Avenue New York, New York	Director	Chairman of Wellsford Group, Inc. since 1986 and of Wellsford Residential Property Trust since 1992. Mr. Lynford is also a Trustee of the National Trust for Historic Preservation.
Elizabeth O. Reagan, 31 757 Third Avenue New York, New York	Vice President	Vice President of the Adviser since 1990 and Portfolio Assistant from August 1987 through 1989. Vice President of CSRI and CSRS.

* Directors who are "interested persons," as defined in the 1940 Act, of the Fund.

Commencing with the first annual meeting of the Fund's shareholders, the Board of Directors will be divided into three classes, each class having a term of three years. Each year the term of office of one class will expire. See "Certain Provisions of the Articles of Incorporation and By-Laws."

The Directors of the Fund who are employees of the Adviser or officers or employees of any of its affiliates receive no remuneration from the Fund. Each of the other Directors is paid an annual retainer of $5,500 and a fee of $500 for each meeting attended and is reimbursed for the expenses of attendance at such meetings.

ADVISORY AGREEMENT

Pursuant to an Investment Advisory Agreement (the "Advisory Agreement"), the Adviser furnishes a continuous investment program for the Fund's portfolio, makes the day-to-day investment decisions for the Fund, executes the purchase and sale orders for the portfolio transactions of 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. Robert H. Steers, Director, Chairman and Secretary of the Fund and Chairman of the Adviser, and Martin Cohen, Director, President and Treasurer of the Fund and President of the Adviser, are responsible for the day-to-day management of the Fund's portfolio. It is the policy of the Adviser to allocate advisory recommendations and the placing of orders in a manner which is deemed equitable by the Adviser to the accounts involved, including the Fund. When two or more of the clients of the Adviser (including the Fund) are purchasing or selling the same security on a given day through the same broker-dealer, such transactions may be averaged as to price.

The Adviser 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 Adviser. Messrs. Martin Cohen and Robert H. Steers may be deemed "controlling persons" of the Adviser on the basis of their ownership of the Adviser's stock.

Under the Advisory Agreement, the Fund will pay the Adviser a monthly management fee at the annual rate of 0.70% of the average weekly net assets of the Fund during the month. For purposes of the calculation of the fee payable to the Adviser, average weekly net assets are determined on the basis of the average net assets of the Fund for each weekly period (ending on Fridays) ending during the month. The net assets for each weekly period are determined by averaging the net assets on Friday of such weekly period with the net assets on Friday of the immediately preceding weekly period. When a Friday is not a Fund business day, then the calculation will be based on the net assets of the Fund on the Fund business day immediately preceding such Friday.

The Adviser also provides the Fund with such personnel as the Fund may from time to time request for the performance of clerical, accounting and other office services, such as coordinating matters with the Administrator, the transfer agent and the custodian, which the Adviser is not required to furnish under the Advisory Agreement. The personnel rendering these services, who may act as officers of the Fund, may be employees of the Adviser or its affiliates. The cost to the Fund of these services must be agreed to by the Fund and is intended to be no higher than the actual cost to the Adviser or its affiliates of providing the services. The Fund does not pay for services performed by officers of the Adviser or its affiliates. The Fund may from time to time hire its own employees or contract to have services performed by third parties, and the management of the Fund intends to do so whenever it appears advantageous to the Fund.

In addition to the payments to the Adviser under the Advisory Agreement described above, the Fund pays other costs of its operations including (i) brokerage and commission expenses, (ii) Federal, state and local taxes, including issue and transfer taxes, incurred by or levied on the Fund, (iii) interest charges on borrowings, (iv) the organizational and offering expenses of the Fund, whether or not advanced by the Adviser, (v) fees and expenses of registering the shares of the Fund under the appropriate Federal securities laws and of qualifying shares of the Fund under applicable state securities law, (vi) fees and expenses of listing and maintaining the listing of the Fund's shares on any national securities exchange, (vii) expenses of printing and distributing reports to shareholders, (viii) costs of proxy solicitation, (ix) charges and expenses of the Fund's Administrator, custodian, transfer agent, dividend disbursing agent and registrar, (x) compensation of the Fund's officers, Directors and employees who do not devote any part of their time to the affairs of the Adviser or the Administrator or any of their affiliates other than investment companies, (xi) legal and auditing expenses, (xii) the cost of certificates representing the Fund's shares, and (xiii) costs of stationery and supplies.

The Advisory Agreement will remain in effect until December 31, 1994 and shall continue in effect thereafter, provided that its continuance is specifically approved annually by the Directors or by vote of the shareholders, and in either case by a majority of the Directors who are not parties to the Advisory Agreement or interested persons of any such party, by vote cast in person at a meeting called for the purpose of voting on such approval.

The Advisory Agreement is terminable without penalty by the Fund on 60 days' written notice when authorized either by a majority vote of its outstanding voting securities or by a vote of a majority of its Directors, or by the Adviser on 60 days' written notice, and will automatically terminate in the event of its assignment. The Advisory Agreement provides that in the absence of willful misfeasance, bad faith or gross negligence on the part of the Adviser, or of reckless disregard of its obligations thereunder, the Adviser shall not be liable for any action or failure to act in accordance with its duties thereunder.

ADMINISTRATOR

Under the terms of an administration agreement between Middlesex Administrators L.P. (the "Administrator") and the Fund (the "Administration Agreement"), the Administrator performs or arranges for the performance of the administrative services (*i.e.*, services other than investment advice and related portfolio activities) necessary for the operation of the Fund, including maintaining certain of the books and records of the Fund, preparing certain reports and other documents required by the U.S. federal securities laws and regulations and providing the Fund with administrative office facilities. For the services rendered to the Fund and the facilities furnished, the Fund will pay the Administrator a monthly fee at the annual rate of 0.20% of the Fund's average weekly net assets.

The Administrator is an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated. The principal address of the Administrator is 800 Scudders Mill Road, Plainsboro, New Jersey 08539.

PORTFOLIO TRANSACTIONS

Subject to the supervision of the Directors, decisions to buy and sell securities for the Fund and negotiation of its brokerage commission rates are made by the Adviser. Transactions on stock exchanges involve the payment by the Fund of negotiated brokerage commissions. There is generally no stated commission in the case of securities traded in the over-the-counter market but the price paid by the

Fund usually includes an undisclosed dealer commission or mark-up. In certain instances, the Fund may make purchases of underwritten issues at prices which include underwriting fees.

In selecting a broker to execute each particular transaction, the Adviser will take the following into consideration: the best net price available; the reliability, integrity and financial condition of the broker; the size and difficulty in executing the order; and the value of the expected contribution of the broker to the investment performance of the Fund on a continuing basis. Accordingly, the cost of the brokerage commissions to the Fund in any transaction may be greater than that available from other brokers if the difference is reasonably justified by other aspects of the portfolio execution services offered. Subject to such policies and procedures as the Directors may determine, the Adviser shall not be deemed to have acted unlawfully or to have breached any duty solely by reason of its having caused the Fund to pay a broker that provides research services to the Adviser an amount of commission for effecting a portfolio investment transaction in excess of the amount of commission another broker would have charged for effecting that transaction, if the Adviser determines in good faith that such amount of commission was reasonable in relation to the value of the research service provided by such broker viewed in terms of either that particular transaction or the Adviser's ongoing responsibilities with respect to the Fund. Research and investment information is provided by these and other brokers at no cost to the Adviser and is available for the benefit of other accounts advised by the Adviser and its affiliates, and not all of the information will be used in connection with the Fund. While this information may be useful in varying degrees and may tend to reduce the Adviser's expenses, it is not possible to estimate its value and in the opinion of the Adviser it does not reduce the Adviser's expenses in a determinable amount. The extent to which the Adviser makes use of statistical, research and other services furnished by brokers is considered by the Adviser in the allocation of brokerage business but there is no formula by which such business is allocated. The Adviser does so in accordance with its judgment of the best interests of the Fund and its shareholders. The Adviser may also take into account payments made by brokers effecting transactions for the Fund to other persons on behalf of the Fund for services provided to it for which it would be obligated to pay (such as custodial and professional fees).

The Fund anticipates that its annual portfolio turnover rate will not exceed 150%, but the turnover rate will not be a limiting factor when the Adviser deems portfolio changes appropriate. The turnover rate may vary from year to year. An annual turnover rate of 150% occurs, for example, when all of the securities held by the Fund are replaced one and one-half times in a period of one year. A higher turnover rate results in correspondingly greater brokerage commissions and other transactional expenses which are borne by the Fund. To the extent that increased portfolio turnover results in a profit from securities held less than three months, the Fund's ability to qualify as a regulated investment company may be adversely affected. Furthermore, high portfolio turnover may result in the realization of net short-term capital gains by the Fund which, when distributed to shareholders, will be taxable as ordinary income. See "Taxation."

DIVIDENDS AND DISTRIBUTIONS

The Fund's policy will be to make monthly distributions from investment company taxable income of the Fund. Net capital gain (net long-term capital gain in excess of net short-term capital loss), if any, is expected to be distributed at least annually. The first monthly dividend is expected to be declared and paid approximately 60 days after delivery of the Shares offered hereby. Investment company taxable income of the Fund consists of all of the Fund's taxable income other than the excess, if any, of net long-term capital gain over net short-term capital loss, reduced by deductible expenses of the Fund. The expenses of the Fund are accrued each day. In addition, the Fund currently expects that a portion of its dividends will consist of amounts in excess of investment company taxable income derived from the non-taxable components of the cash flow from the real estate underlying the Fund's portfolio investments. These amounts would be considered a return of capital and thus would not be subject to current taxation. To the extent practicable, the Fund will attempt to pay monthly distributions to shareholders at a constant rate, which may be adjusted from time to time by the Fund's Board of Directors, although there can be no assurance that it will be able to do so. In order to maintain such monthly distributions, short-term capital gains, and amounts representating a return of the shareholder's capital, may from time to time be included in monthly distributions. See "Taxation—Distributions."

Dividend Reinvestment Plan

The Fund has a Dividend Reinvestment Plan (the "Plan"). Each shareholder may elect to have all distributions of dividends and capital gains automatically reinvested in additional Shares by The Bank of New York, as agent for shareholders pursuant to the Plan (the "Plan Agent"). The Plan Agent will effect purchases of Shares under the Plan in the open market. Shareholders who do not participate in the Plan will receive all distributions in cash paid by check mailed directly to the shareholder of record (or if the shares are held in street or other nominee name, then to the nominee) by the Plan Agent, as dividend disbursing agent. Shareholders whose shares are held in the name of a broker or nominee should contact the broker or nominee to determine whether and how they may participate in the Plan.

The Plan Agent serves as agent for the shareholders in administering the Plan. After the Fund declares a dividend or makes a capital gain distribution, the Plan Agent will, as agent for the participants, receive the cash payment and use it to buy Shares in the open market, on the New York Stock Exchange or elsewhere, for the participants' accounts. The Fund will not issue any new Shares in connection with the Plan.

Participants in the Plan may withdraw from the Plan upon written notice to the Plan Agent. Such withdrawal will be effective immediately if received not less than ten days prior to a dividend record date; otherwise, it will be effective for all subsequent dividend record dates. When a participant withdraws from the Plan or upon termination of the Plan as provided below, certificates for whole Shares credited to his or her account under the Plan will be issued and a cash payment will be made for any fraction of a Share credited to such account.

The Plan Agent maintains each shareholder's account in the Plan and furnishes monthly written confirmations of all transactions in the accounts, including information needed by the shareholders for personal and tax records. Shares in the account of each Plan participant will be held by the Plan Agent on behalf of the participant. Proxy material relating to shareholders' meetings of the Fund will include those Shares purchased as well as Shares held pursuant to the Plan.

In the case of shareholders, such as banks, brokers or nominees, which hold Shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Shares certified from time to time by the record shareholders as representing the total amount registered in the record shareholder's name and held for the account of beneficial owners who are participants in the Plan. Shares may be purchased through any of the Underwriters, acting as broker or, after the completion of this offering, dealer.

The Plan Agent's fees for the handling of reinvestment of dividends and other distributions will be paid by the Fund. Each participant will pay a *pro rata* share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of distributions. There are no other charges to participants for reinvesting dividends or capital gain distributions. See "Taxation."

The automatic reinvestment of dividends and other distributions will not relieve participants of any income tax that may be payable or required to be withheld on such dividends or distributions.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan as applied to any distribution paid subsequent to written notice of the change sent to all shareholders of the Fund at least 90 days before the record date for the dividend or distribution. The Plan also may be amended or terminated by the Plan Agent by at least 90 days' written notice to all shareholders of the Fund. All correspondence concerning the Plan should be directed to the Plan Agent at P.O. Box 11258, Church Street Station, New York, New York 10286-1258 (telephone 800-524-4458).

ANNUAL TENDER OFFERS AND SHARE REPURCHASES; POSSIBLE CONVERSION TO OPEN-END STATUS

In recognition of the possibility that the Fund's Shares might trade at a discount to net asset value, the Fund's Board of Directors has determined that it would be in the best interest of shareholders of the Fund to take action to attempt to reduce or eliminate a market value discount from net asset value. To that end, the Directors have determined that annual tender offers and periodic open market repurchases for the Fund's Shares may help reduce any market discount that may develop. In this connection, the Board of Directors has committed to conduct a tender offer for Shares on an annual basis, subject to certain limitations. A tender offer will be conducted during the first quarter of each calendar year commencing in 1995 unless, during the period of 12 calendar weeks prior to a date in the first quarter designated by the Board of Directors no later than the end of the preceding quarter, shares of the Fund have traded on the NYSE at an average discount from net asset value of less than 3%, or at an average premium, determined on the basis of the discount or premium, as the case may be, as of the last trading day in each week during such 12 week period. In addition, the Board will consider from time to time more frequent tender offers for and/or open market repurchases of Fund Shares.

Subject to the Fund's investment restrictions with respect to borrowings, the Fund may incur debt to finance tender offers and/or repurchases. See "Investment Restrictions." Interest on any such borrowings will reduce the Fund's net investment income, and any such borrowings are subject to special considerations. See "Investment Objective and Policies—Borrowings and Leverage" and "Risk Factors and Special Considerations—Use of Leverage."

There can be no assurance that tenders and/or repurchases will result in the Fund's Shares trading at a price that approximates or is equal to their net asset value. The Fund anticipates that the market price of its Shares will from time to time vary from net asset value. The market price of the Fund's Shares will, among other things, be determined by the relative demand for and supply of Shares in the market, the Fund's investment performance, the Fund's dividends and yield and investor perception of the Fund's overall attractiveness as an investment as compared with other investment alternatives. Nevertheless, the fact that the Shares may be subject to tender offers at net asset value from time to time may reduce the spread between market price and net asset value that might otherwise exist. In the opinion of the Adviser, sellers may be less inclined to accept a significant discount if they have a reasonable expectation of being able to recover net asset value in conjunction with an annual tender offer.

Although the Board of Directors believes that tender offers and share repurchases generally would have a favorable effect on the market price of the Fund's Shares, the repurchase of Shares by the Fund will decrease the total assets of the Fund and, therefore, have the effect of increasing the Fund's expense ratio. Because of the nature of the Fund's investment objective and policies and the Fund's portfolio, the Adviser does not anticipate that tender offers and repurchases should have a materially adverse effect on the Fund's investment performance and does not anticipate any material difficulty in disposing of portfolio securities in order to consummate tender offers and share repurchases.

Although the Board of Directors has committed to annual tender offers under the circumstances set forth above, it is the Directors' announced policy, which may be changed by the Directors, that the Fund cannot accept tenders or effect repurchases if (1) such transactions, if consummated, would (a) result in the delisting of the Fund's shares from the New York Stock Exchange (the Exchange having advised the Fund that it would consider delisting if the aggregate market value of the Fund's outstanding shares is less than $5,000,000, the number of publicly held shares falls below 600,000 or the number of round-lot holders falls below 1,200), (b) impair the Fund's status as a regulated investment company under the Code (which would make the Fund a taxable entity, causing the Fund's income to be taxed at the Fund level in addition to the taxation of shareholders who receive dividends from the Fund) or (c) result in a failure to comply with applicable asset coverage requirements in the event any senior securities are issued and outstanding; (2) the amount of securities tendered would require liquidation of such a substantial portion of the Fund's securities that the Fund would not be able to liquidate portfolio securities in an orderly manner in light of the existing market conditions and such liquidation would have an adverse effect on the net asset value of the Fund to the detriment of non-tendering shareholders; (3) there is any (a) in the Board of Directors' judgment, material legal action or proceeding instituted or threatened challenging such transactions or otherwise materially adversely affecting the Fund, (b) suspension of or limitation on prices for trading securities generally on the New York Stock Exchange or other national securities exchange(s), or the National Association of Securities Dealers Automated Quotation System ("NASDAQ") National Market System, (c) declaration of a banking moratorium by federal or state authorities or any suspension of payment by banks in the United States or New York State, (d) limitation affecting the Fund or the issuers of its portfolio securities imposed by federal or state authorities on the extension of credit by lending institutions, (e) commencement of war, armed hostilities or other international or national calamity directly or indirectly involving the United States, or (f) in the Board of Directors' judgment, other event or condition which would have a material adverse effect on the Fund or its shareholders if Shares were repurchased; or (4) the Board of Directors determines that effecting any such transaction would constitute a breach of their fiduciary duty owed the Fund or its shareholders. The Directors may modify these conditions in light of experience.

Any tender offer made by the Fund for its Shares will be at a price equal to the net asset value of the Shares on a date subsequent to the Fund's receipt of all tenders. During the pendency of any tender offer by the Fund, the Fund will calculate daily the net asset value of the Shares and will establish procedures, which will be specified in the tender offer documents, to enable shareholders to ascertain readily such net asset value. Each offer will be made and shareholders notified in accordance with the requirements of the Securities Exchange Act of 1934 and the 1940 Act, either by publication or mailing or both. Each offering document will contain such information as is prescribed by such laws and the rules and regulations promulgated thereunder, including information for stockholders to consider in deciding whether to tender Shares and detailed instructions on how to tender Shares. When a tender offer is authorized to be made by the Fund's Directors, a shareholder wishing to accept the offer will be required to tender all (but not less than all) of the Shares owned by such shareholder (or attributed to him for federal income tax purposes under Section 318 of the Code) unless the Fund has received a ruling from the Internal Revenue Service (or, at the Fund's option, an opinion of counsel) that a tender of less than all of a shareholder's stock will not cause certain adverse tax consequences with respect to non-tendering shareholders. See "Taxation."

The Fund will not specify a record date for the tender offer which will not permit a stockholder of record on the effective date of the tender offer to tender his Shares. The Fund will purchase all Shares tendered in accordance with the terms of the offer unless it determines to accept none of them (based upon one of the conditions set forth above). Each person tendering Shares will pay to the Fund a reasonable service charge currently anticipated to be $25.00, subject to change, to help defray certain costs, including the processing of tender forms, effecting payment, postage and handling. It is the position of the staff of the Securities and Exchange Commission that such service charge may not be deducted from the proceeds of the purchase. The Fund's transfer agent will receive the fee as an offset to these costs. The Fund expects that the cost to the Fund of effecting a tender offer will exceed the aggregate of all service charges received from those who tender their Shares. Such excess costs associated with the tender will be charged against capital. Tendered Shares that have been accepted and purchased by the Fund will be recorded and reported as an offset to shareholders' equity and accordingly will reduce the Fund's total assets.

If the Fund must liquidate portfolio securities in order to purchase Shares tendered, the Fund may realize gains and losses. Such gains may be realized on securities held for less than three months. Because of the limitation of 30% on the portion of the Fund's gross income that may be derived from the sale or disposition of stocks and securities held less than three months (in order to retain the Fund's tax status as a regulated investment company under the Code), such gains would reduce the ability of the Fund to sell other securities held for less than three months that the Fund may wish to sell in the ordinary course of its portfolio management, which may adversely affect the Fund's yield. See "Taxation." The portfolio turnover rate of the Fund may or may not be affected by the Fund's repurchases of Shares pursuant to a tender offer.

In the event that the Fund engages in financial leveraging, the asset coverage requirements of the 1940 Act may restrict the Fund's ability to engage in repurchases of its Shares. With respect to bank borrowings or senior securities consisting of debt, such requirements provide that no purchases of Shares may be made by the Fund unless, at the time of the purchase, the outstanding borrowings or senior securities consisting of debt have an asset coverage of at least 300% after deducting the amount of the purchase price. With respect to preferred stock, the applicable asset coverage percentage is 200%. See "Investment Objective and Policies—Borrowings and Leverage."

The Fund may be converted to an open-end investment company at any time by a vote of the outstanding Shares. See "Certain Provisions of the Articles of Incorporation and By-Laws" for a discussion of voting requirements applicable to conversion of the Fund to an open-end investment company. If the Fund converted to an open-end investment company, the Fund's Shares would no longer be listed on the New York Stock Exchange. Conversion to open-end status could also require the Fund to modify certain investment restrictions and policies. Shareholders of an open-end investment company may require the company to redeem their Shares at any time (except in certain circumstances as authorized by or permitted under the 1940 Act) at their net asset value, less such redemption charge, if any, as might be in effect at the time of redemption. In order to avoid maintaining large cash positions or liquidating favorable investments to meet redemptions, open-end investment companies typically engage in a continuous offering of their Shares. Open-end investment companies are thus subject to periodic asset in-flows and out-flows that can complicate portfolio management. The Board of Directors may at any time propose conversion of the Fund to open-end status, depending upon its judgment regarding the advisability of such action in light of circumstances then prevailing.

TAXATION

Unless otherwise noted, the following is a summary of certain U.S. federal income tax considerations affecting the Fund and its shareholders and is based on the advice of Dechert Price & Rhoads. No attempt is made to present a detailed explanation of the tax treatment of the Fund or its shareholders, and the discussion here is not intended as a substitute for careful tax planning. Investors should consult their own tax advisers regarding the tax consequences to them of an investment in the Fund in light of their particular circumstances.

Qualification as a Regulated Investment Company

The Fund intends to qualify annually and to elect to be taxed as a regulated investment company under Subchapter M of the Code and therefore generally will not be subject to federal income tax on the portion of its investment company taxable income and net capital gain distributed to its shareholders. In order to qualify as a regulated investment company for any taxable year, the Fund must (i) derive at least 90% of its gross income for that year from dividends, interest, certain payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income derived with respect to its business of investing in such stock, securities or currencies ("Qualifying Income Requirement"); (ii) derive less than 30% of its gross income for that year from the sale or other disposition of certain assets (namely, (a) stock or securities, (b) options, futures and forward contracts (other than those on foreign currencies), and (c) foreign currencies (including options, futures and forward contracts on such currencies) not directly related to the Fund's principal business of investing in stocks or securities (or options and futures with respect to stocks and securities)) held for less than three months (the "30% Limitation"); (iii) diversify its assets so that, at the close of each quarter of its taxable year, (a) at least 50% of the value of its total assets consists of cash, cash items, U.S. Government securities, the securities of other regulated investment companies and other securities, with such other securities of any one issuer limited for the purposes of this calculation to an amount not greater than 5% of the value of the Fund's total assets and not greater than 10% of the outstanding voting securities of such issuer, and (b) not more than 25% of the value of its total assets is invested in the securities of any one issuer (other than U.S. Government securities or the securities of other regulated investment companies); and (iv) distribute at least 90% of its investment company taxable income (which includes dividends, interest and the excess of net short-term capital gain over net long-term capital loss) for the taxable year. The U.S. Treasury Department has authority to promulgate regulations pursuant to which gains from foreign currency (and options, futures and forward contracts on foreign currency) not directly related to a regulated investment company's business of investing in stocks and securities would not be treated as qualifying income for purposes of the Qualifying Income Requirement. To date, such regulations have not been promulgated.

As a regulated investment company, the Fund generally will not be subject to federal income tax on its investment company taxable income and net capital gains (net long-term capital gains in excess of the sum of net short-term capital losses and capital loss carryovers from prior years), if any, that it distributes to shareholders. However, the Fund would be subject to corporate income tax on any undistributed income. In addition, the Fund will be subject to a non-deductible 4% excise tax on the amount by which the income it distributes in any calendar year is less than a required amount. The required distribution for a calendar year equals the sum of (i) 98% of the Fund's ordinary income for such calendar year; (ii) 98% of the excess of capital gains over capital losses (adjusted for certain ordinary losses) for the one-year period ending on October 31 of each year; and (iii) 100% of the undistributed ordinary income and capital gains for prior years.

The Fund intends to distribute sufficient income so as to avoid both federal income tax and excise tax. However, the Fund may in the future decide to retain all or a portion of its net capital gain, as described under "Distributions" below. The Fund may incur an excise tax were it to retain net capital gain.

If in any taxable year the Fund fails to qualify as a regulated investment company under the Code, the Fund would be taxed in the same manner as an ordinary corporation and distributions to its shareholders would not be deductible by the Fund in computing its taxable income. In addition, in the event of a failure to qualify, the Fund's distributions, to the extent derived from the Fund's current or accumulated earnings and profits, would constitute dividends (eligible for the corporate dividends-received deduction) which are taxable to shareholders as ordinary income, even though those distributions might otherwise (at least in part) have been treated in the shareholders' hands as long-term capital gains.

If the Fund fails to qualify as a regulated investment company in any year, it must pay out its earnings and profits accumulated in that year and may be required to recognize any net unrealized gains on its entire portfolio in order to qualify again as a regulated investment company.

Distributions

Distributions of investment company taxable income generally will be taxable to shareholders as ordinary income, regardless of whether such distributions are paid in cash or are invested in additional Shares. Because a portion of the Fund's income is expected to consist of dividends paid by U.S. corporations, a portion of the dividends paid by the Fund is expected to be eligible for the corporate dividends-received deduction. A distribution of net capital gain which is designated by the Fund as a capital gain dividend, whether paid in cash or reinvested in Shares, is taxable to shareholders as long-term capital gain, regardless of the length of time a shareholder has held his or her Shares, and is not eligible for the dividends-received deduction. A distribution of an amount in excess of the Fund's current and accumulated earnings and profits will be treated by a shareholder as a return of capital which is applied against and reduces the shareholder's basis in his or her Shares. To the extent that the amount of any such distribution exceeds the shareholder's basis in his or her Shares, the excess will be treated by the shareholder as gain from a sale or exchange of the Shares.

If the Fund retains all or part of its net capital gain for any taxable year, the Fund will be subject to federal income tax (and, possibly, an excise tax) on such undistributed amounts. In such event, the Fund would most likely make an election which would require each shareholder of record on the last day of the Fund's taxable year to include in gross income for federal tax purposes his or her proportionate share of the Fund's undistributed net capital gain. If such an election were made, each shareholder would be entitled to credit his or her proportionate share of the tax paid by the Fund against his or her federal income tax liabilities and to claim a refund to the extent that the credit exceeds such liabilities. In addition, the shareholder would be entitled to increase the basis of the Shares for federal tax purposes by an amount equal to 65% of his or her proportionate share of the undistributed net capital gain.

Dividends and other distributions by the Fund are generally taxable to the shareholders at the time the dividend or distribution is paid. Dividends declared by the Fund in October, November or December of a calendar year and payable to shareholders of record in such a month are taxable to shareholders as of December 31st of that year, provided that the dividend is actually paid by the end of the following January.

Shareholders that reinvest either distributions of investment company taxable income or capital gains distributions in additional Shares will be treated as receiving distributions of an amount equal to the cash distribution that would have been paid. The cost basis in the shares received will equal the amount recognized as a taxable distribution.

The Fund will send written notice to shareholders regarding the tax status of all distributions under the Code made during each calendar year.

Sales of Shares

Upon the sale or other disposition of the Fund's Shares, or upon receipt of a distribution in complete liquidation of the Fund, a shareholder may realize a gain or loss which generally will be capital gain or loss and which will be long-term or short-term, generally depending upon the shareholder's holding period for the Shares. Any loss realized on a sale or exchange will be disallowed to the extent the Shares disposed of are replaced (including Shares acquired pursuant to the Dividend Reinvestment Plan) within a period of 61 days beginning 30 days before and ending 30 days after disposition of the Shares. In such a case, the basis of the Shares acquired will be adjusted to reflect the disallowed loss. Any loss realized by a shareholder on a disposition of Shares held by the shareholder for six months or less generally will be treated as a long-term capital loss to the extent of any capital gain dividends received or deemed to have been received by the shareholder with respect to such Shares.

Investments in Real Estate Investment Trusts

Corporate and non-corporate shareholders are subject to an alternative minimum tax on their alternative minimum taxable income. Such tax is payable to the extent it exceeds the taxpayer's regular tax. The alternative minimum taxable income is the taxable income of the shareholder adjusted for tax preferences and certain other items. Through its investment in REITs, the Fund may recognize items which are either adjustments in computing alternative minimum taxable income under Section 56 of the Code, or items of tax preference under Section 57 of the Code. Under Section 59 of the Code, these items of adjustment or preference are to be allocated between the Fund and its shareholders in accordance with regulations to be prescribed by the Secretary of the Treasury. No such regulations have yet been issued so it is not possible to determine if such items will cause the Fund to be subject to the alternative minimum tax or if they will be allocated to the shareholders to be taken into account in the calculations of their alternative minimum taxable income.

The Fund may invest in REITs that may hold residual interests in real estate mortgage investment conduits ("REMICs"). Under Treasury regulations that have not yet been issued, but may apply retroactively, a portion of the Fund's income from a REIT that is attributable to the REIT's residual interest in a REMIC (referred to in the Code as an "excess inclusion") will be subject to federal income tax in all events. These regulations are also expected to provide that excess inclusion income of a regulated investment company, such as the Fund, will be allocated to shareholders of the regulated investment company in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related REMIC residual interest directly. In general, excess inclusion income allocated to shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (ii) will constitute unrelated business taxable income to entities (including a qualified pension plan, an individual retirement account, a 401(k) plan, a Keogh plan or other tax-exempt entity) subject to tax on unrelated business income, thereby potentially requiring such an entity that is allocated excess inclusion income, and otherwise might not be required to file a tax return, to file a tax return and pay tax on such income, and (iii) in the case of a foreign shareholder, will not qualify for any reduction in a federal withholding tax pursuant to an otherwise applicable tax treaty. In addition, if at any time during any taxable year a "disqualified organization" (as defined in the Code) is a record holder of a share in a regulated investment company, then the regulated investment company will be subject to a tax equal to that portion of its excess inclusion income for the taxable year that is allocable to the disqualified organization, multiplied by the highest federal income tax rate imposed on corporations. The Fund intends to invest only a small portion, if any, of its assets in REITs that have a substantial portion of assets which consists of residual interests in REMICs. Thus, it is anticipated that the Fund will not have a significant amount of excess inclusion income.

Offers to Purchase Shares

A shareholder who, pursuant to a tender offer, tenders all Shares owned or considered owned by him or her will realize a taxable gain or loss depending upon his or her basis in the Shares. Such gain or loss will be treated as capital gain or loss if the Shares are capital assets in the shareholder's hands and will be long-term or short-term depending upon the shareholder's holding period for the Shares. If a tendering shareholder tenders less than all Shares owned by and attributed to such shareholder, and if the distribution to such shareholder does not otherwise qualify as an exchange, the proceeds received will be treated as a dividend, return of capital or capital gain depending on the Fund's earnings and profits and the shareholder's basis in the tendered Shares. There is a risk that shareholders may be considered to have received a deemed distribution as a result of the purchase by the Fund of tendered Shares and that such distribution may be taxable as a dividend in whole or in part. See "Annual Tender Offers and Share Repurchases; Possible Conversion to Open-End Status." A shareholder wishing to tender Shares pursuant to a tender offer will be required to tender all (but not less than all) of the Shares owned by and attributed to such shareholder unless the Fund has received a ruling from the Internal Revenue Service (or, at the Fund's option, an opinion of counsel) that a tender of less than all of a shareholder's Shares will not cause adverse tax consequences with respect to Shares not tendered. See "Annual Tender Offers and Share Repurchases; Possible Conversion to Open-End Status."

Backup Withholding

The Fund may be required to withhold federal income tax at the rate of 31% of all taxable distributions payable to shareholders who fail to provide the Fund with their correct taxpayer identification number or to make required certifications, or who have been notified by the Internal Revenue Service that they are subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be credited against a shareholder's federal income tax liability. Certain persons are exempt from the backup withholding requirements. Questions relating to backup withholding should be directed to your tax adviser.

Foreign Shareholders

Federal taxation of a shareholder who, as to the United States, is a non-resident alien individual, a foreign trust or estate, a foreign corporation or foreign partnership ("foreign shareholder") depends on whether the income from the Fund is "effectively connected" with a U.S. trade or business carried on by such shareholder.

Income Not Effectively Connected. If the income from the Fund is not "effectively connected" with a U.S. trade or business carried on by the foreign shareholder, distributions of investment company taxable income will be subject to a federal tax of 30% (or lower treaty rate, except in the case of any excess inclusion income allocated to the shareholder (see "Taxation—Investments in Real Estate Investment Trusts")), which tax is generally withheld from such distributions.

Distributions of capital gain dividends and amounts retained by the Fund which are designated as undistributed capital gains will not be subject to federal tax at the rate of 30% (or lower treaty rate) unless the foreign shareholder is a non-resident alien individual and is physically present in the United States for more than 182 days during the taxable year and meets certain other requirements. However, this 30% tax on capital gains of non-resident alien individuals who are physically present in the United States for more than the 182-day period only applies in exceptional cases because any individual present in the United States for more than 182 days during the taxable year is generally treated as a resident for federal income tax purposes; in that case, he or she would be subject to federal income tax on his or her worldwide income at the graduated rates applicable to U.S. citizens, rather than the 30% federal tax. In the case of a foreign shareholder who is a non-resident alien individual, the Fund may be required to withhold federal income tax at a rate of 31% of distributions of net capital gains unless the foreign shareholder certifies his or her non-U.S. status under penalties of perjury or otherwise establishes an exemption. See "Backup Withholding" above. If a foreign shareholder is a non-resident alien individual, any gain such shareholder realizes upon the sale or exchange of such shareholder's Shares of the Fund in the United States will ordinarily be exempt from federal tax unless (i) the gain is U.S. source income and such shareholder is physically present in the United States for more than 182 days during the taxable year and meets certain other requirements, or is otherwise considered to be a resident alien of the United States, or (ii) at any time during the shorter of the period during which the foreign shareholder held Shares and the five year period ending on the date of the disposition of such Shares, the Fund was a "U.S. real property holding corporation" and the foreign shareholder held more than 5% of the Shares of the Fund, in which event the gain will be taxed in the same manner as for a U.S. shareholder as discussed above and a 10% federal withholding tax may be imposed on the amount realized on the disposition of such Shares to be credited against the foreign shareholder's federal income tax liability on such disposition. A corporation is a "U.S. real property holding corporation" if the fair market value of its U.S. real property interests equals or exceeds 50% of the fair market value of such interests plus its interests in real property located outside the United States plus any other assets used or held for use in its business. In the case of the Fund, U.S. real property interests include interests in stock in U.S. real property holding corporations (other than stock of a REIT controlled by U.S. persons and holdings of 5% or less in the stock of publicly-traded U.S. real property holding corporations) and certain participating debt securities.

Income Effectively Connected. If the income from the Fund is "effectively connected" with a U.S. trade or business carried on by a foreign shareholder, then distributions of investment company taxable income and capital gain dividends, amounts retained by the Fund which are designated as undistributed capital gains and any gains realized upon the sale or exchange of Shares of the Fund will be subject to federal income tax at the graduated rates applicable to U.S. citizens, residents and domestic corporations. Such shareholders may also be subject to the branch profits tax imposed by the Code.

The tax consequences to a foreign shareholder entitled to claim the benefits of an applicable tax treaty may be different from those described herein. Foreign shareholders are advised to consult their own tax advisers with respect to the particular tax consequences to them of an investment in the Fund.

Other Taxes

Distributions and gains may also be subject to state, local and foreign taxes depending on each shareholder's particular situation. Shareholders should consult their own tax advisers with respect to their particular situation.

DESCRIPTION OF SHARES

The Fund is authorized to issue 100,000,000 Shares of common stock, $.001 par value. The Shares have no preemptive, conversion, exchange or redemption rights. Each Share has equal voting, dividend, distribution and liquidation rights. The Shares outstanding are and those offered hereby, when issued, will be fully paid and nonassessable. Shareholders are entitled to one vote per share. All voting rights for the election of Directors are noncumulative, which means that the holders of more than 50% of the Shares can elect 100% of the Directors then nominated for election if they choose to do so and, in such event, the holders of the remaining Shares will not be able to elect any Directors. Under the rules of the New York Stock Exchange applicable to listed companies, the Fund will be required to hold an annual meeting of shareholders in each year. The foregoing description and the descriptions below under "Certain Provisions of the Articles of Incorporation and By-Laws" and above under "Annual Tender Offers and Share Repurchases; Possible Conversion to Open-End Status" are subject to the provisions contained in the Fund's Articles of Incorporation and By-Laws.

The Fund has no present intention of offering additional Shares. Other offerings of the Fund's Shares, if made, will require approval of its Board of Directors. Any additional offering will be subject to the requirement of the 1940 Act that Shares may not be sold at a price below the then current net asset value, exclusive of sales loads, except in connection with an offering to existing shareholders or with consent of the holders of a majority of the Fund's outstanding voting securities.

As of the date of this Prospectus, Cohen & Steers Capital Management, Inc. owned of record and beneficially 7,100 Shares of the Fund's common stock, constituting 100% of the outstanding Shares of the Fund, and thus, until the public offering of the Shares is completed, will control the Fund.

CERTAIN PROVISIONS OF THE ARTICLES OF INCORPORATION AND BY-LAWS

The Fund presently has provisions in its Articles of Incorporation and By-laws (together, the "Charter Documents") that are intended to have the effect of limiting (i) the ability of other entities or persons to acquire control of the Fund, (ii) the Fund's freedom to engage in certain transactions or (iii) the ability of the Fund's Directors or shareholders to amend the Charter Documents or effect changes in the Fund's management. These provisions of the Charter Documents may be regarded as "anti-takeover" provisions. Commencing with the first annual meeting of shareholders, the Board of Directors will be divided into three classes. The term of office of the first class will expire on the date of the second annual meeting of shareholders, the term of office of the second class will expire on the date of the third annual meeting of shareholders and the term of office of the third class will expire on the date of the fourth annual meeting of shareholders. Upon the expiration of the term of office of each class as set forth above, the Directors in such class will be elected for a term of three years to succeed the Directors whose terms of office expire. Accordingly, only those Directors in one class may be changed in any one year, and it would require two years to change a majority of the Board of Directors (although under Maryland law procedures are available for the removal of Directors even if they are not then standing for re-election, and under Commission regulations, procedures are available for including shareholder proposals in management's annual proxy statement). Such system of electing Directors may have the effect of maintaining the continuity of management and, thus, make it more difficult for the Fund's shareholders to change the majority of Directors. A Director may be removed from office only by a vote of at least 75% of the outstanding Shares entitled to vote for the election of Directors. See "Directors and Officers." Under Maryland law and the Fund's Articles of Incorporation, the affirmative vote of the holders of a majority of the votes entitled to be cast is required for the consolidation of the Fund with another corporation, a merger of the Fund with or into another corporation (except for certain mergers in which the Fund is the successor), a statutory share exchange in which the Fund is not the successor, a sale or transfer of all or substantially all of the Fund's assets, the dissolution of the Fund and any amendment to the Fund's Articles of Incorporation. The affirmative vote of 75% (which is higher than that required under Maryland law or the 1940 Act) of the outstanding Shares is required to authorize the liquidation or dissolution of the Fund in the absence of approval of the liquidation or dissolution by a majority of the Continuing Directors of the Fund (defined for this purpose as those Directors who are either members of the Board of Directors on the date of closing of the offering of the Shares or subsequently become Directors and whose election is approved by a majority of the Continuing Directors then on the Board). In addition, the affirmative vote of 75% (which is higher than that required under Maryland law or the 1940 Act) of the outstanding Shares is required generally to authorize any of the following transactions involving a corporation, person or entity that is directly, or indirectly through affiliates, the beneficial owner of more than 5% of the outstanding Shares ("Principal Shareholder"), or to amend the provisions of the Articles of Incorporation relating to such transactions:

(i) merger, consolidation or statutory share exchange of the Fund with or into any Principal Shareholder;

(ii) issuance of any securities of the Fund to any Principal Shareholder for cash;

(iii) sale, lease or exchange of all or any substantial part of the assets of the Fund to any Principal Shareholder (except assets having an aggregate fair market value of less than $1,000,000); or

(iv) sale, lease or exchange to the Fund, in exchange for securities of the Fund, of any assets of any Principal Shareholder (except assets having an aggregate fair market value of less than $1,000,000).

However, such vote would not be required when, under certain conditions, the Continuing Directors of the Fund approve the transaction, although in certain cases involving merger, consolidation or statutory share exchange or sale of all or substantially all of the Fund's assets, the affirmative vote of a majority of the outstanding Shares of the Fund would nevertheless be required. The affirmative vote of 66⅔% (which is higher than that required under Maryland law or the 1940 Act) of the outstanding Shares is required to convert the Fund to an open-end investment company and to amend the Fund's Articles of Incorporation to effect any such conversion. For the full text of these provisions, reference is made to the Articles of Incorporation and By-Laws of the Fund, on file with the Securities and Exchange Commission.

The provisions of the Charter Documents described above could have the effect of depriving the owners of Shares of opportunities to sell their Shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. See "Annual Tender Offers and Share Repurchases; Possible Conversion to Open-End Status." The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a principal shareholder. The Board of Directors of the Fund has considered the foregoing anti-takeover provisions and concluded that they are in the best interests of the Fund and its shareholders.

DETERMINATION OF NET ASSET VALUE

The Fund will determine the net asset value of its Shares at least once each week, generally on Friday, as of the close of trading on the New York Stock Exchange (currently 4:00 p.m. New York time). Net asset value is computed by dividing the value of all assets of the Fund (including accrued interest and dividends), less all liabilities (including accrued expenses and dividends declared but unpaid), by the total number of Shares outstanding.

For purposes of determining the Fund's net asset value per Share, readily marketable portfolio securities listed on the New York Stock Exchange are valued, except as indicated below, at the last sale price reflected on the consolidated tape at the close of the New York Stock Exchange on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices on such day. If no bid or asked prices are quoted on such day, then the security is valued by such method as the Directors shall determine in good faith to reflect its fair market value. Readily marketable securities not listed on the New York Stock Exchange but listed on other national securities exchanges or admitted to trading on the NASDAQ National List are valued in like manner. Portfolio securities traded on more than one national securities exchange are valued at the last sale price on the business day as of which such value is being determined as reflected on the tape at the close of the exchange representing the principal market for such securities.

Readily marketable securities traded in the over-the-counter market, including listed securities whose primary market is believed by the Adviser to be over-the-counter, but excluding securities admitted to trading on the NASDAQ National List, are valued at the mean of the current bid and asked prices as reported by NASDAQ or, in the case of securities not quoted by NASDAQ, the National Quotation Bureau or such other comparable sources as the Directors deem appropriate to reflect their fair market value. However, certain fixed-income securities may be valued on the basis of prices provided by a pricing service when such prices are believed by the Adviser to reflect the fair market value of such securities. The prices provided by a pricing service take into account institutional size trading in similar groups of securities and any developments related to specific securities. Notwithstanding the above, short-term debt securities with maturities of 60 days or less are valued at amortized cost, if their term to maturity from the date of purchase was less than 60 days, or by amortizing their value on the 61st day prior to maturity, if their term to maturity from date of purchase when acquired by the Fund was more than 60 days, unless the Board of Directors determines that this does not represent fair value. Where securities are traded on more than one exchange and also over-the-counter, the securities will generally be valued using the quotations the Board of Directors believes reflect most closely the value of such securities.

UNDERWRITING

Subject to the terms and conditions set forth in a purchase agreement (the "Purchase Agreement"), the Fund has agreed to sell to each of the Underwriters named below, and each of the Underwriters, for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated, A.G. Edwards & Sons, Inc., PaineWebber Incorporated and Prudential Securities Incorporated are acting as representatives (the "Representatives"), has severally agreed to purchase from the Fund the number of Shares set forth opposite its name below. The several Underwriters are committed to purchase all of such Shares if any are purchased.

Underwriter	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	862,175
A.G. Edwards & Sons, Inc.	862,175
PaineWebber Incorporated	862,175
Prudential Securities Incorporated	862,175
Bear, Stearns & Co. Inc.	133,300
Alex. Brown & Sons Incorporated	133,300
Donaldson, Lufkin & Jenrette Securities Corporation	133,300
Kidder, Peabody & Co. Incorporated	133,300
Lehman Brothers Inc.	133,300
Oppenheimer & Co., Inc.	133,300
Wertheim Schroder & Co. Incorporated	133,300
Advest, Inc.	66,700
Robert W. Baird & Co. Incorporated	66,700
J.C. Bradford & Co.	66,700
Cowen & Company	66,700
Dain Bosworth Incorporated	66,700
Fahnestock & Co. Inc.	66,700
First Albany Corporation	66,700
First of Michigan Corporation	66,700
Gruntal & Co., Incorporated	66,700
Interstate/Johnson Lane Corporation	66,700
Janney Montgomery Scott Inc.	66,700
Kemper Securities, Inc.	66,700
Ladenburg, Thalmann & Co. Inc.	66,700
Legg Mason Wood Walker, Incorporated	66,700
McDonald & Company Securities, Inc.	66,700
Morgan Keegan & Company, Inc.	66,700
Piper Jaffray Inc.	66,700
The Principal/Eppler, Guerin & Turner, Inc.	66,700
Ragen MacKenzie Incorporated	66,700

Underwriter	Number of Shares
Rauscher Pierce Refsnes, Inc.	66,700
Raymond James & Associates, Inc.	66,700
The Robinson-Humphrey Company, Inc.	66,700
Stephens Inc.	66,700
Stifel, Nicolaus & Company, Incorporated	66,700
Sutro & Co. Incorporated	66,700
Tucker Anthony Incorporated	66,700
Wheat, First Securities, Inc.	66,700
George K. Baum & Company	16,700
Branch, Cabell and Company	16,700
Brean Murray, Foster Securities Inc.	16,700
JW Charles Securities, Inc.	16,700
The Chicago Corporation	16,700
Crowell, Weedon & Co.	16,700
Davenport & Co. of Virginia, Inc.	16,700
D. A. Davidson & Co. Incorporated	16,700
Dominick & Dominick, Incorporated	16,700
Allen C. Ewing & Co.	16,700
Ferris, Baker Watts, Incorporated	16,700
First Southwest Company	16,700
Hamilton Investments, Inc.	16,700
Hanifen, Imhoff Inc.	16,700
J.J.B. Hilliard, W. L. Lyons, Inc.	16,700
Johnston, Lemon & Co. Incorporated	16,700
Josephthal Lyon & Ross Incorporated	16,700
Laidlaw Equities, Inc.	16,700
Mesirow Financial, Inc.	16,700
Moors & Cabot, Inc.	16,700
The Ohio Company	16,700
Parker/Hunter Incorporated	16,700
Pennsylvania Merchant Group Ltd	16,700
Raffensperger, Hughes & Co., Inc.	16,700
Roney & Co.	16,700
Scott & Stringfellow, Inc.	16,700
Smith, Moore & Co.	16,700
Sterne, Agee & Leach, Inc.	16,700
Wedbush Morgan Securities	16,700
Total	6,667,000

The Representatives of the Underwriters have advised the Fund that they propose initially to offer the Shares to the public at the offering price set forth on the cover page of this Prospectus, and to certain dealers at such price less a concession not in excess of $.65 per Share. The Underwriters may allow, and such dealers may reallow, a discount not in excess of $.10 per Share to certain other dealers. A portion of the sales load will be allocated to each Underwriter that effects sales for its own account in excess of 250,000 Shares. Under certain circumstances, the Adviser may reimburse the Underwriters for the amounts so allocated up to a maximum of $.03 per Share sold by each Underwriter. The Adviser also has agreed to pay Merrill Lynch, Pierce, Fenner & Smith Incorporated a fee for acting as lead managing underwriter in an amount not to exceed .30% of the value of the Shares sold by such firm. After the initial public offering, the public offering price, concession and discount may be changed.

The Fund has granted the Underwriters an option exercisable for 45 days after the date hereof to purchase up to 1,000,050 additional Shares to cover over-allotments, if any, at the initial public offering price, less the sales load. If the Underwriters exercise this option, each of the Underwriters will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage thereof which the number of Shares to be purchased by it shown in the foregoing table is of the 6,667,000 Shares initially offered hereby.

The Fund and the Adviser have each agreed to indemnify the several Underwriters or contribute to losses arising out of certain liabilities, including liabilities under the Securities Act of 1933, as amended.

In order to meet the requirements for listing of the Fund's shares on the New York Stock Exchange, the Underwriters have undertaken to sell lots of 100 or more Shares to a minimum of 2,000 beneficial owners in the United States.

The Fund has agreed not to offer or sell any additional Shares for a period of 180 days after the date of the Purchase Agreement without the prior written consent of the Underwriters, except for the sale of Shares to the Underwriters pursuant to the Purchase Agreement.

The Fund anticipates that the Representatives and certain other Underwriters may from time to time act as brokers in connection with the execution of its portfolio transactions after they have ceased to be Underwriters and, subject to certain restrictions, may act as brokers while they are Underwriters.

The Underwriters may take certain actions to discourage short-term trading of Shares during a period of time following the initial offering date. Included in these actions is the requirement of physical delivery of certificates representing Shares to transfer their ownership for a certain period and the withholding of the concession to dealers in connection with Shares which were sold by such dealers and which are repurchased for the account of the Underwriters during such period.

Middlesex Administrators L.P., an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, will act as the Fund's Administrator and will receive compensation from the Fund in connection with such services. See "Administrator".

CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REGISTRAR

The Bank of New York has been retained to act as custodian of the Fund's investments and to serve as the Fund's transfer and dividend disbursing agent and registrar. The Bank of New York has no part in deciding the Fund's investment policies or which securities are to be purchased or sold for the Fund's portfolio.

REPORTS TO SHAREHOLDERS

The Fund will send unaudited semi-annual and audited annual reports to its shareholders, including a list of investments held.

VALIDITY OF THE SHARES

The validity of the Shares offered hereby is being passed on for the Fund by Dechert Price & Rhoads, New York, New York, and certain other legal matters will be passed on for the Underwriters by Skadden, Arps, Slate, Meagher & Flom, New York, New York. Dechert Price & Rhoads will rely upon the opinion of Venable, Baetjer and Howard for matters pertaining to Maryland law.

EXPERTS

The statement of assets and liabilities of the Fund as of September 13, 1993 included in this Prospectus has been so included in reliance on the report of Coopers & Lybrand, New York, New York, independent accountants, given on the authority of the firm as experts in auditing and accounting.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholder and Board of Directors of
COHEN & STEERS TOTAL RETURN REALTY FUND, INC.:

We have audited the accompanying statement of assets and liabilities of Cohen & Steers Total Return Realty Fund, Inc. as of September 13, 1993. The statement of assets and liabilities is the responsibility of the Fund's management. Our responsibility is to express an opinion on this statement of assets and liabilities based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of assets and liabilities is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of assets and liabilities. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of assets and liabilities referred to above presents fairly, in all material respects, the financial position of Cohen & Steers Total Return Realty Fund, Inc. as of September 13, 1993, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND

New York, New York
September 14, 1993

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES

September 13, 1993

ASSETS	
Cash	$ 100,110
Deferred organization expenses (Note 1)	64,050
Deferred offering expenses	947,146
Total assets	1,111,306
LIABILITIES	
Deferred offering and organization expenses payable (Note 1)	1,011,196
Total liabilities	$1,011,196
Net Assets (Applicable to 7,100 shares of Common Stock issued and outstanding, $.001 par value; 100,000,000 shares authorized)	$ 100,110
Net asset value per share	$ 14.10

Note 1. Organization

Cohen & Steers Total Return Realty Fund, Inc. (the "Fund") was incorporated in the State of Maryland on September 4, 1992, as a non-diversified, closed-end management investment company. The Fund has had no operations other than the sale to Cohen & Steers Capital Management, Inc. (the "Adviser") of 7,100 shares of common stock for $100,110 to provide the initial capital of the Fund. A portion of the costs incurred and to be incurred in connection with the organization and initial registration of the Fund will be paid by the Adviser; however, the Fund will reimburse such costs. Organization costs estimated at $64,050 will be deferred and amortized over a period of 60 months from the date the Fund commences operations. Costs relating to the public offering of the Fund's shares will be payable from the proceeds of the offering and charged to capital at the time of the issuance of such shares.

Note 2. Agreements

The Fund has agreements with the Adviser and Middlesex Administrators L.P. (the "Administrator").

The Advisory Agreement provides the Adviser with a monthly management fee at the annual rate of 0.70% of the average weekly net assets of the Fund during the month. For its fee, the Adviser will provide investment advice and, in general, will conduct the management and investment program of the Fund.

The Administration Agreement provides the Administrator with a monthly fee at an annual rate of 0.20% of the average weekly net assets of the Fund during the month. For its fee, the Administrator will provide certain administrative, clerical and recordkeeping services for the Fund.

APPENDIX A

DESCRIPTION OF BOND RATINGS

Moody's Ratings

Bonds rated Aa by Moody's are judged by Moody's to be of high quality by all standards. Together with bonds rated Aaa (Moody's highest rating), they comprise what are generally known as high-grade bonds. Aa bonds are rated lower than Aaa bonds because margins of protection may not be as large as those of Aaa bonds, or fluctuations of protective elements may be of greater amplitude, or there may be other elements present which make the long-term risks appear somewhat larger than those applicable to Aaa securities. Bonds which are rated A by Moody's possess many favorable investment attributes and are to be considered upper medium-grade obligations. Factors giving security to payment of principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

Moody's Baa rated bonds are considered medium-grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present, but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Bonds which are rated Ba are judged to have speculative elements because their future cannot be considered as well assured. Uncertainty of position characterizes bonds in this class, because the protection of interest and principal payments may be very moderate and not well safeguarded.

Bonds which are rated B generally lack characteristics of a desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the security over any long period of time may be small. Bonds which are rated Caa are of poor standing. Such securities may be in default or there may be present elements of danger with respect to principal or interest. Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings. Bonds which are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

S&P's Ratings

Bonds rated AA by S&P have a very strong capacity to pay interest and differ only in a small degree from issues rated AAA (S&P's highest rating). Bonds rated AAA are considered by S&P to be the highest grade obligations and have an extremely strong capacity to pay interest and principal. Bonds rated A by S&P have a strong capacity to pay principal and interest, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.

S&P's BBB rated bonds are regarded as having adequate capacity to pay interest and principal. Although these bonds normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and principal.

Bonds rated BB, B, CCC, CC and C are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation and C the highest degree of speculation. While such bonds may have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

No dealer, salesperson or any other person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offer contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Fund, the Adviser or the Underwriters. This Prospectus does not constitute an offer to sell or a solicitation of any offer to buy any security other than the Common Stock offered by this Prospectus, nor does it constitute an offer to sell or a solicitation of any offer to buy the Common Stock by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that information contained herein is correct as of any time subsequent to the date hereof.

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Until October 12, 1993 all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as Underwriters and with respect to their unsold allotments or subscriptions.

6,667,000 Shares

Cohen & Steers Total Return Realty Fund, Inc.

Common Stock

PROSPECTUS

Merrill Lynch & Co.

A.G. Edwards & Sons, Inc.

PaineWebber Incorporated

Prudential Securities Incorporated

September 17, 1993