



A REAL ESTATE TRIFECTA? WHY IT MAY PROVE TIMELY TO REVISIT LISTED REAL ESTATE.

- 1** Record amounts of capital in Private Real Estate Funds
- 2** Valuations for Listed Real Estate are at attractive levels
- 3** Third Avenue believes that M&A activity is likely to accelerate

PUBLIC VS. PRIVATE ALLOCATIONS

In September 2021, the Journal of Portfolio Management released its Special Real Estate Issue where its authors examined the historical performance of real estate private equity funds over a 20-year period (1999-2019).

Within the study, it was reported that there was “a similar overall performance between real estate private equity funds and private-REITs” whereas “private equity real estate funds have underperformed listed real estate funds even before adjusting for risk, leverage, illiquidity and the uncertain investment timing associated with unfunded capital commitments.” The study also noted that this report “provides additional support for the superior performance of listed real estate relative to a private market alternative.”

Despite the findings, readers well versed in the real estate capital markets likely recognize that there are tradeoffs associated with each type of allocation (e.g., daily liquidity, price volatility, et al). The simple fact is that all three types of allocations have their own merits and serve as critical components of the real estate ecosystem. Moreover, tracking the patterns of capital flows amongst these vehicles can oftentimes have important implications.

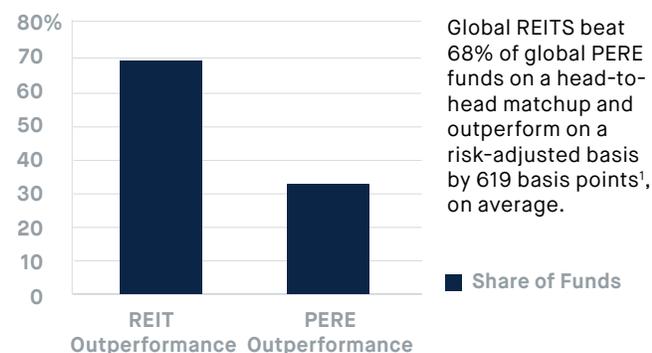
RECORD FLOWS TO PRIVATE VEHICLES

Allocations to real estate and other “real asset” strategies are on the rise given the perceived combination of offering current yield and inflation protection—at the same time that the return prospects for more traditional allocations seem less attractive.

To put that into context, it is reported that the amount of “dry powder” in real estate private equity funds has reached record high levels exceeding \$300 billion on a global basis (per Preqin) with more than \$250 billion in the US alone (see chart to the right).

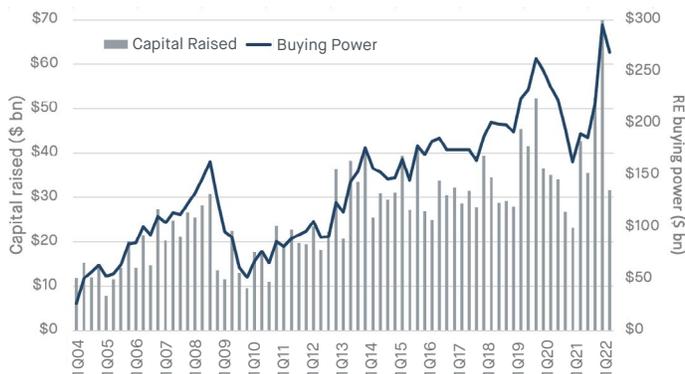
LISTED REAL ESTATE STOCKS (REIT) OUTPERFORM PRIVATE EQUITY REAL ESTATE (PERE) FUNDS

GLOBAL REITS VS GLOBAL PERE ANALYSIS



Source: NAREIT: Thomas Arnold, David Ling, and Andy Naranjo. Private Equity Real Estate Fund Performance: A comparison to Listed REITs and Open-end Core Funds, June 2021, forthcoming in the Journal of Portfolio Management.²

RECORD REAL ESTATE PRIVATE EQUITY BUYING POWER



Source: Third Avenue Management, Robert A. Stanger & Co., Preqin, SNL, Green Street.

COMPELLING VALUATIONS

Alongside these shifts, the Third Avenue team estimates that the Real Estate Value Fund's holdings are trading at more than a 20% discount to conservative estimates of Net-Asset Value or "NAV" (i.e., a proxy for the value of an issuer's assets less liabilities or its private market value) amidst recent market volatility. This disconnect is quite substantial when viewed on a historical basis, and has only been reached in two other instances in the past 10 years (see chart to the right).

M&A ACTIVITY LIKELY TO ACCELERATE

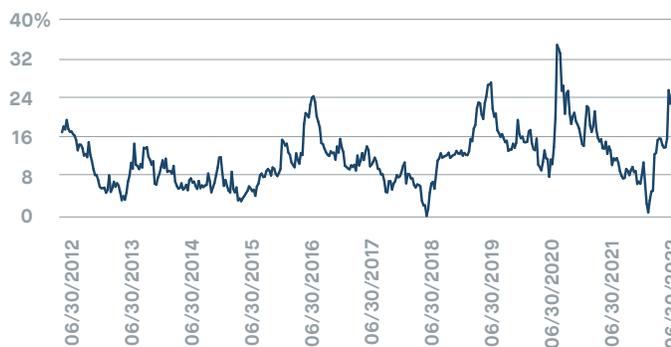
In Third Avenue's view, these developments are likely to have two major ramifications for the Third Avenue Real Estate Value Fund. One, the Fund has important investments in certain real estate (and real asset) managers that are receiving a significant share of these allocations, thus expanding the value of their franchises in the process (e.g., Brookfield Asset Management, Prologis, CBRE Group, and Savills). Two, it seems as if buying portfolios from listed real estate players (or even public companies outright) will be the path of least resistance for the sponsors of these private vehicles to deploy such large sums of capital.

Similar periods have been rewarding as the Third Avenue Real Estate Value Fund's decades-long strategy of investing in the securities of real estate enterprises that control desirable assets (but trade at discounts to the private market value of their corporate values for temporary reasons) often means the "catalyst" for surfacing value is some type of resource conversion event (e.g., mergers, acquisitions, privatizations, spin-offs, et al). An abbreviated list of such historical holdings is included above.

CONCLUSION

With a combination of compelling valuations and substantial private capital, Fund Management anticipates that the pace of corporate actions involving the Real Estate Value Fund's holdings will gather momentum in the ensuing quarters. Not only would such activity highlight value for certain positions, it would also supplement *the Special Real Estate Issue's* noted appeal of listed real estate with one other compelling aspect. That is, the proposition of being able to buy into very-hard-to-replicate real estate enterprises at prices that are below what a "control buyer" would pay in a negotiated transaction, thus augmenting returns over time.

TAREX HISTORICAL DISCOUNT TO NAV (2012-2022)



Source: Third Avenue Estimates

TAREX RESOURCE CONVERSION

Company	Offer Date	Exposure
Catchmark Timber Trust	May-22	U.S. South timberlands
Preferred Apartments	Feb-22	U.S. Sun Belt multifamily
St. Modwen Properties	May-21	U.K. logistics and housing
Wheelock and Company	Feb-20	Hong Kong and China, residential, retail etc.
Forest City Realty Trust	Jul-18	NYC office, life science, retail, multifamily
Westfield Corporation	Dec-17	U.S. and U.K. malls
Global Logistics Properties	Jul-17	China/Japan/U.S. logistics
Post Properties	Aug-16	U.S. Sun Belt multifamily
Newhall Holding Company	May-16	Californian master-planned communities
Parkway Properties	Apr-16	U.S. Sun Belt office
Songbird Estates	Nov-14	Canary Wharf
Commonwealth Property Office	Oct-13	Australian office
Thomas Properties	Sep-13	U.S. Sun Belt office
Prologis European Properties	Apr-11	European industrial assets

Source: Third Avenue Management

PORTFOLIO MANAGERS



Jason Wolf, CFA

Joined Third Avenue in 2004
28 years of investment
experience



Ryan Dobratz, CFA

Joined Third Avenue in 2006
18 years of investment
experience



THIRD AVENUE
MANAGEMENT



[/third-ave-management](https://www.linkedin.com/company/third-ave-management)

Founded in 1998, Third Avenue's **Global Real Estate strategy** seeks long term capital appreciation by investing globally across an expansive universe that includes both real estate and real estate-related securities worldwide and across the capital structure.

If you would like further information, please visit the strategy page at <https://thirdave.com/strategy-tarex/> or contact a Relationship Manager at:

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Date of first use of portfolio manager commentary: August 12, 2022

1 **Basis Points** – Basis points (BPS) refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

2 The study compares the return performance of closed-end, private real estate (PERE) funds relative to the performance of listed real estate stocks (real estate investment trusts [REITs] and the NCREIF ODCE fund index. The study first matches each PERE fund in the sample and its realized internal rate of return and equity multiple with the return that would have been earned by an LP investor on an investment in the designated benchmark over each fund's investment horizon. The risk adjusted assumptions made to the annual IRR of Global REITS in the study assume a 425 basis points upward adjustment to account for the opportunity cost of maintaining dry powder, illiquidity, financial leverage and the opportunity cost of waiting in PERE funds. The time frame examined is Q1 2000 through Q4 2019, or 80 quarters with PERE Fund vintages from 2000 through 2014 with a minimum of 5 years of seasoning. Please read the full report here. <https://eprints.pm-research.com/17511/58884/index.html?55997>

TOP TEN HOLDINGS AS OF 6/30/22

Allocations are subject to change without notice

	TAREX
Brookfield Asset Management, Inc.	6.6%
Lennar Corp.	5.6%
Prologis, Inc.	5.5%
CK Asset Holdings, Ltd.	5.5%
Wharf Holdings, Ltd.	5.2%
Rayonier, Inc.	5.2%
AMERCO	4.7%
Weyerhaeuser Co.	4.7%
Five Point Holdings, LLC, Class A	4.5%
American Homes 4 Rent	4.0%
Total	51.5%

Risks that could negatively impact returns include: overbuilding and increased competition, increases in property taxes and operating expenses, lack of financing, vacancies, environmental contamination and its related clean-up, changes in interest rates, casualty or condemnation losses, and variations in rental income.

Third Avenue Funds are offered by prospectus only. The prospectus contains important information, including investment objectives, risks, advisory fees and expenses. Please read the prospectus carefully before investing in the Funds. Investment return and principal value fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. For updated information or a copy of our prospectus, please call 1-800-443-1021 or go to our website at www.thirdave.com. Distributor of Third Avenue Funds: Foreside Fund Services, LLC.

Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.