

June 30, 2019

Jason Wolf, CFA | Portfolio Managers
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Dear Fellow Shareholders:

We are pleased to provide you with the Third Avenue Real Estate Value Fund's (the "Fund") report for the quarter ended June 30, 2019. Through the first half of the year, the Fund generated a return of +12.53% (after fees) versus +15.09% (before fees) for the Fund's most relevant benchmark, the FTSE EPRA NAREIT Developed Index¹.

During the second quarter, the Fund trailed the aforementioned index predominantly during the month of May (when the yield on the 10-year US Treasury Note declined by nearly 40 basis points to 2.04%). This variance was largely due to the Fund having less exposure to US-based Real Estate Investment Trusts. These more widely-held real estate securities tend to out-perform in periods of declining interest rates; however, Fund Management remains mindful of their prevailing valuations within a historical context (i.e., US REITs currently trade at prices that represent approximately 24.8 times free cash flow when viewed on a trailing 12 month basis—a level that has only been reached in the 10 months prior to the financial crisis to our knowledge).

Recognizing that performance can fluctuate from quarter to quarter, Fund Management has always believed that its long-term results are a more relevant measure of performance. Since the Fund's inception in September 1998, it has earned an annualized return of +9.80%. As highlighted in the following chart, this performance indicates an initial investment of \$100,000 in the Third Avenue Real Estate Value Fund would have a market value in excess of \$695,000 as of June, 30 2019 (assuming distributions had been reinvested), or approximately 60% more than the same \$100,000 would be worth had it been placed into a passive fund tracking the S&P 500 and held over the same time period.

Value of \$100K Since September 1998²

As of June 30, 2019



Fund Activity

When analyzing businesses, and the securities that they issue, the Third Avenue Real Estate team has never attempted to assess the merits of an investment based solely upon it carrying a "value" or "growth" label. In our view, a "top-down" approach such as this overlooks the long-held concept at Third Avenue that the reported earnings and book value of an individual business are oftentimes not the most precise metrics for gauging the resources that exist within an enterprise (i.e., its Net-Asset Value). Instead a "bottom-up" analysis is necessary to truly understand the wealth creation potential of any single enterprise and the price-to-value proposition that its securities represent.

For instance, a business that has a significant pipeline of soon-to-be-completed development projects may be characterized as a "growth" investment given a very high price to earnings ratio due to depressed earnings at the present time. However, the securities of that business may in fact represent a "deep value" investment were one to conduct extensive due-diligence on the company's development opportunities and adjust the company's book value to reflect the private-market value of its assets, as well as measure the potential earnings when those resources are ultimately converted to a higher-and-better-use (e.g., Five Point Holdings common stock).

¹ The FTSE EPRA/NAREIT Developed Real Estate Index was developed by the European Public Real Estate Association (EPRA), a common interest group aiming to promote, develop and represent the European public real estate sector, and the North American Association of Real Estate Investment Trusts (NAREIT), the representative voice of the US REIT industry. The index series is designed to reflect the stock performance of companies engaged in specific aspects of the North American, European and Asian Real Estate markets. The Index is capitalization-weighted.

Please see Appendix for performance table and information.

² Hypothetical investment since Fund inception Sept 17, 1998.

On the other hand, a business that owns a portfolio of market-dominant shopping centers in dense urban markets may screen as a “value” investment with a historically-low cash flow multiple due to the out-of-favor nature of “brick-and-mortar” businesses today. Nonetheless, the company’s securities may actually represent “growth at a dirt cheap price” as the enterprise takes steps to reinvest in their well-located centers and replaces obsolete department store space with higher-value alternatives such as experiential retail concepts, apartments, hotels, offices, self-storage and fulfillment centers (e.g., Macerich Co. common stock).

Having recognized the shortcomings of placing securities within a style-box for many years now, the Third Avenue Real Estate team utilizes a more encompassing approach, seeking out securities that fall within a “modern-value” investing framework. To wit, Fund Management targets the securities of incredibly well-capitalized enterprises that are run by aligned control groups who seem positioned to compound capital at attractive rates over time (e.g., low double-digit NAV growth, per year, when including dividends). Further, Fund Management only attempts to purchase the securities of these issuers when they can be acquired at prices that represent discounts to readily ascertainable estimates of Net-Asset Value and are underpinned by real assets that are durable in nature (e.g., not subject to significant technological obsolescence without an alternative use).

While securities meeting these strict criteria are not always available in abundance, the Fund did have the opportunity to establish positions in the common stocks of two organizations that meet the “modern-value” standards during the quarter: Patrizia Immobilien AG and City Developments Limited.

Founded in 1984, **Patrizia Immobilien AG** (“Patrizia”) is a real estate operating company that has transformed its business model in recent years. Originally a direct investor in German residential properties, the company’s Founder and CEO, Wolfgang Egger (who owns 52% of the outstanding shares), has spent the past decade building Patrizia into one of the leading real estate investment managers in Continental Europe. Today the company has more than €40 billion of assets under management within a closed-end fund lineup where Patrizia co-invests its capital alongside institutional partners across a diversified set of property-types (office, retail, residential, and logistics) and strategies (core, core-plus, value-add, and opportunistic) in the region.

Having followed the company for some time, Fund Management believes that Patrizia is in the final stages of integrating three large scale acquisitions completed in recent years (including the purchase of the Truvia platform out of the IVG restructuring in 2018 where the Fund was involved as an IVG creditor). As a result, it seems likely that the company will finally realize the efficiencies from its enhanced scale as one of the top 10 investment managers in Europe (e.g., operating margins in the 35% range excluding incentive fees).

Alongside a super-strong financial position (i.e., a net cash balance sheet with €500 mm of cash & equivalents), the additional scale also leaves Patrizia well-placed to gain additional mandates as the vast majority of institutional investors in the region are (i) seeking to boost allocations to real estate amidst negative bond yields and (ii) increasingly looking to work with a reduced set of managers that offer a diverse set of funds, strong performance in prior strategies, and the ability to co-invest capital.

Founded in 1965, **City Developments Limited** (“City Dev”) is a real estate operating company based in Singapore. One of the largest commercial real estate owners in the country, the company has more than 3 million square feet of highly-leased office and retail properties in the central business district, as well as one of the largest residential development pipelines (more than \$2 billion USD of projects). In addition, the Kwek family (who owns 48% of City Dev common stock through the Hong Leong Group) has expanded the business internationally over the past two decades. As a result, the company now has nearly 50% of its invested capital in a diversified set of commercial and residential investments in the UK, China, and the US—including a 65% stake in Millennium & Copthorne (“MLC”), a separately listed owner and manager of hotel properties in gateway cities globally.

Having been held in the Fund previously, Fund Management has tracked City Dev for more than a decade, more recently through its management transition (where Sherman Kwek assumed the Group CEO role), as well as the company’s execution on three key initiatives: further international expansion, increasing the scale of its funds management business, and privatizing its MLC subsidiary. While the efforts are not yet complete, the implementation has generally been impressive, particularly the monetization of non-core assets into funds, forward-thinking investments into the UK’s evolving private rental sector, and a recent capital infusion into China-based Sincere Holdings.

Despite this progress, City Dev common remains at a historically-wide discount to its Net-Asset Value. Insofar as Fund Management can tell, the most likely cause for the discounted valuation lies in the company's strong ties to the residential markets in Singapore where "property-cooling measures" were introduced in 2018 to mitigate against further price appreciation. While in effect for nearly a year, these additional taxes and stamp duties have served to reduce residential prices, taper volume, and reduce the profits of developers such as City Dev. Nevertheless, it seems likely that the measures will be lifted over the next two-to-three years in order to incentivize additional supply and stimulate economic activity. In the meantime, City Dev remains incredibly well-capitalized (net debt to asset ratio below 25%) and seems poised to further boost its NAV, particularly if the company (i) prioritizes its efforts of enhancing the profitability of its MLC platform once wholly-owned (i.e., operating margins are approximately half of industry peers) and (ii) resumes opportunistic share repurchases before the labor of its recent transformation yields tangible results.

Outside of these additions, the Fund also reduced its weightings in **Segro plc** and **First Industrial Realty** during the quarter. Both companies are structured as Real Estate Investment Trusts ("REITs") and are engaged in the ownership and development of industrial real estate in the UK and US, respectively. Fund Management recognizes that fundamentals for industrial real estate continue to be quite solid (particularly due to demand from companies with ties to e-commerce) but remains cognizant of the fact that (i) distribution space has amongst the lowest barriers-to-entry for new construction (e.g., it is estimated that 550 million square feet of additional supply will be added in 2019 and 2020 in the US, per Cushman & Wakefield, likely exceeding demand for the first time since the financial crisis) and (ii) that the implied valuations for industrial real estate organizations have reached an all-time high following recent transaction activity in the sector (e.g., the price to sales ratio for the two largest industrial REITs have increased to approximately 16 times from just 12 times at the end of 2018).

The proceeds from trimming back these securities (as well as other holdings in the Fund including **Lowe's Companies** and **Sino Land**) were primarily used to increase the weightings in a select set of other positions where the total return potential seemed more favorable when viewed on a multi-year

basis. These positions included the common stock of **Trinity Place Holdings** (a US-based real estate operating company that recently launched sales at its residential-led development in lower Manhattan) and **Macerich Co.** (a US-based mall REIT that controls highly productive shopping-led destinations in urban markets that could benefit from redevelopment as previously outlined), as well as the convertible bonds of **Intu Properties plc** (a UK-based mall REIT that owns 8 of the top 20 shopping centers in the UK and is currently undertaking efforts to improve its financial position).

Fund Positioning

After incorporating the most recent activity, the Fund ended the quarter with approximately 49.0% of its capital invested in property companies that are involved in long-term wealth creation. These holdings are largely capitalizing on the further densification of key urban corridors and primarily include: CK Asset Holdings, Brookfield Asset Management, Berkeley Group, Henderson Land, Wheelock & Co., JBG Smith Properties, City Developments, and Derwent London.

Each of these enterprises represents a "modern-value" investment as the issuers are very well-capitalized, the securities trade at a discount to our estimate of NAV, and the issuers seems capable of increasing NAV by a low double-digit rate (including dividends) through further appreciation in the value of the underlying assets, as well as by undertaking additional development and redevelopment activities and by making opportunistic acquisitions.

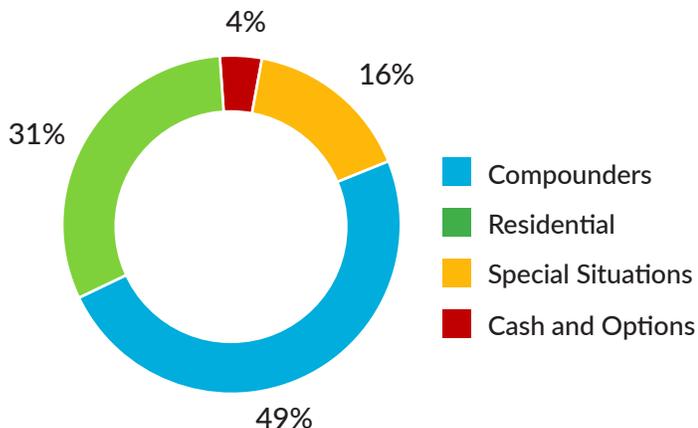
The Fund also has 30.1% of its capital invested in real estate-related businesses, most of which have strong ties to the US residential markets, such as timberlands (Weyerhaeuser & Rayonier), land development (Five Point and Tejon Ranch), homebuilding (Lennar Corp), title insurance (FNF Group), moving and storage (Amerco), and home improvement (Lowe's). All of these businesses seem poised to benefit from a continued recovery in housing fundamentals as outlined in greater detail hereafter.

An additional 15.6% of the Fund's capital is invested in special situations such as: Macerich, PNC Financial Services, Trinity Place Holdings, and The New Home Company in the US; Capital & Counties plc and Intu Properties plc in the UK; and Wharf Holdings in Hong Kong.

The remaining 4.4% of the Fund's capital is in cash & equivalents (e.g., short-term US Treasuries). The Fund also maintains certain hedges, most notably relating to its exposure to the Hong Kong Dollar.

Asset Allocation as of June 30, 2019

(allocations subject to change)



Fund Commentary

Since 1998, the Joint Center for Housing Studies of Harvard University has published the [State of the Nation's Housing](#)—an annual update on the housing markets, homeownership, and affordability. Widely read by industry professionals, its findings offer a valuable perspective for those interested in gauging the current state of affairs of the US residential markets and the likely path ahead. While there is an abundance of relevant items within the report, there were three key findings as it relates to the Fund's holdings within the US residential sector:

1. Housing supply levels are exceedingly low. The overbuilding that occurred in the US residential markets during 2004-2007 is well-documented with annual housing starts averaging more than 2.0 million units per year relative to an average of 1.5 million per year in the three decades prior. Less widely discussed is the contraction that occurred within the US residential construction markets relative to the size of the overall population in the ensuing ten years. Put otherwise, home starts have only averaged 3.0 homes per 1,000 residents each year since 2010—considerably less than the 6.5 homes per 1,000 residents built each year, on average, during the previous 50 years. As a result, the excess supply of the late 2000's has not only been absorbed, but the national vacancy rate for housing (both single-family homes and multi-family dwellings) has now declined below 4.5%—a level not reached since 1991.

2. Demand for housing is accelerating. Amidst the recession that followed the “financial crisis”, household formations fell to record low levels along with residential construction activity. In fact, the number of households formed during 2008-2014 averaged less than 1 million per year—a rate that only been witnessed once in the past 45 years (1991). Notwithstanding, household formations have accelerated back to more normalized levels averaging 1.2 million per year in the past three years and hit a post-crisis high in 2018 at approximately 1.5 million. With approximately 10 million young adults (aged 25-34) living with family members and more than 45 million of the millennial cohort (the largest generation in history) moving into the age group where they are most likely to form households (before 40), household formations are expected to remain around (if not surpass) recent levels.

3. Production levels likely to increase. Given the backdrop of record low levels of supply, alongside increasing levels of demand, the current production rate for US housing seems poised to increase. Per the study, annual additions to the US housing stock have historically exceeded household formations by an average of 30% per year to account for obsolescence, second homes, population shifts within regions, and structural vacancy. Even assuming that household formations fall back to the 1.2 million range experienced in the past three years, this would point to annual demand of approximately 1.5 million residential units per year—or 300k homes more than most recent activity, which would likely consist of a disproportionate share of additional single-family homes with multi-family building already back to prior levels.

Fund Management acknowledges that the return to a more normalized level housing market (i.e., 1.5 million annual home starts) has taken longer than anticipated after such a sharp downturn. Key impediments to a more rapid recovery have included a lack of entitled land, shortage of labor, and restrictive financing. Many of these challenges seem to have receded, though, leaving the primary obstacle ahead as the supply of more affordable options for first-time buyers (and renters).

While only half way through 2019, Fund Management has observed two notable shifts within the residential markets that seem likely to further alleviate this issue. One, large homebuilders have repositioned their product offerings more recently,

rolling out smaller units that are more affordable for first-time homebuyers. In fact, the median price of a new home sold has declined by 5% from two years ago to approximately \$308k. At the same time, wages have increased by 6% on average, boosting the affordability equation by more than 10% all else equal.

In addition, the historically cottage industry of single-family home rentals has become more mainstream. In recent years, portfolios that were opportunistically purchased during the downturn have consolidated into a handful of larger-sized single family rental businesses. With a lack of existing homes to purchase in scale, these institutionally-managed entities are increasingly working with homebuilders to expand their portfolios through build-to-rent initiatives by purchasing newly-constructed homes in bulk. These homes are then rented out to households that desire a single-family dwelling (typically due to a life event such as marriage or childbirth) but don't have the financial resources to make a substantial down-payment—or simply prefer the flexibility of renting versus owning.

As these initiatives accelerate further, it seems likely that the “state of the nation’s housing” market will continue its trend back to more normalized conditions. In the process, the companies that have strong ties to a higher level of production seem poised to benefit. Such a development would positively impact the Fund’s more-conservatively priced investments with ties to the US residential markets (e.g. Lennar, Weyerhaeuser, Rayonier, Five Point, Fidelity National, et al) that comprise a much larger proportion of the Fund’s capital relative to most real estate funds and indices.

We thank you for your continued support and look forward to writing to you again next quarter. In the interim, please don't hesitate to contact us with any questions, comments, or ideas at realestate@thirdave.com.

Sincerely,

The Third Avenue Real Estate Team



Jason Wolf, CFA



Ryan Dobratz, CFA

IMPORTANT INFORMATION

This publication does not constitute an offer or solicitation of any transaction in any securities. Any recommendation contained herein may not be suitable for all investors. Information contained in this publication has been obtained from sources we believe to be reliable, but cannot be guaranteed.

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Date of first use of portfolio manager commentary: July 19, 2019

THIRD AVENUE REAL ESTATE VALUE FUND

INSTITUTIONAL: TAREX | INVESTOR: TVRVX | Z: TARZX

APPENDIX

June 30, 2019

FUND PERFORMANCE

As of 6/30/19	YTD	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date
Third Avenue Real Estate Value Fund (Institutional Class)	12.53%	-6.60%	4.75%	2.83%	9.96%	9.80%	9/17/1998
Third Avenue Real Estate Value Fund (Investor Class)	12.39%	-6.84%	4.48%	2.56%	N/A	7.75%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
Lennar Corp.	6.3%
Weyerhaeuser Co.	6.1%
CK Asset Holdings Ltd.	6.0%
Brookfield Asset Management, Inc.	4.9%
Wheelock & Co. Ltd.	4.8%
Rayonier, Inc.	4.7%
Five Point Holdings, LLC, Class A	4.7%
JBG Smith Properties	3.9%
Henderson Land Development Co. Ltd.	3.8%
Segro PLC	3.7%
Total	48.9%

Allocations subject to change

Past performance is no guarantee of future results; returns include reinvestment of all distributions. The above represents past performance and current performance may be lower or higher than performance quoted above. 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 the most recent month-end performance, please visit the Fund's website at www.thirdave.com. The gross expense ratio for the Fund's Institutional, Investor and Z share classes is 1.12%, 1.41% and 1.03%, respectively, as of March 1, 2019. 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.

THIRD AVENUE
MANAGEMENT

www.thirdave.com

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

Third Avenue offers multiple investment solutions with unique exposures and return profiles. Our core strategies are currently available through '40Act mutual funds and customized accounts. If you would like further information, please contact a Relationship Manager at:

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