

July 31, 2016

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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 July 31, 2016

PORTFOLIO ACTIVITY

The day after the United Kingdom ("U.K.") held its referendum on whether or not to remain in the European Union ("EU"), the adage "Sell in May and go away" seemed like prescient advice. With a majority of the U.K. voters unexpectedly electing to leave the EU, the reality of a "Brexit" finally set in, leading to a great deal of uncertainty on how the process would play out and sharp declines in the prices of most U.K. equities as well as the British pound. In fact, prices for the common stocks of most U.K. property companies were trading at levels 25-35% lower than they had been (in U.S. Dollar terms) only days before. We have never been "market timers". Instead, we invest when the securities of well-financed companies can be purchased at substantial discounts to conservative estimates of Net Asset Value ("NAV"). In this case, the Fund emerged as an active buyer of U.K. property stocks in the days after the vote, accounting for the bulk of the portfolio changes during the period.

As we wrote about in the previous quarterly letter, the Fund has been invested in the U.K. for more than a decade. At certain times the Fund has even had nearly 20% of its capital invested in the U.K. as it has been our long-held view that it is one of the premier property markets for long-term investors. This is especially the case for London where real estate investors enjoy strong property laws, favorable lease terms, strict zoning ordinances which limit new supply, steady occupier demand from both domestic and multi-national tenants, and a transparent and robust transaction market. The Fund's exposure to the U.K. had been reduced materially in recent years, though, as certain companies were privatized (Songbird Estates, Quintain Estates & Development) or positions were either sold (Berkeley Group, Taylor Wimpey, Bellway) or reduced in size for valuation reasons (Hammerson, Segro, and Savills). As a result, approximately 7% of the Fund's capital was invested in the U.K. earlier this year with the view that the U.K. exposure could go back to approximately 15% of the Fund's capital should a vote for Brexit occur leading to even more substantial discounts to NAV.

With that plan in place, the Fund swiftly added to its U.K. exposure in the days after the referendum by investing more than \$100 million in its existing holdings, boosting the U.K. exposure to more than 13% of the Fund's capital in the process. The largest investment during the period was in the common stock of Land Securities – now a top position in the Fund. As outlined in detail in the previous letter, Land Securities is a U.K.-based Real Estate Investment Trust ("REIT") that owns a high quality portfolio of office and retail properties primarily concentrated in London with a particularly strong position in the Victoria sub-market in the West End of London. In addition, the Fund increased its positions in the common stocks of Segro and Hammerson. Segro is a U.K.-based REIT that owns an irreplaceable portfolio of industrial properties in Europe with a market dominant position in the Royal Park and Heathrow markets which are key industrial hubs for London. Hammerson is also a U.K. REIT that owns some of the most valuable shopping malls in the U.K. (e.g., Brent Cross in London, Bullring in Birmingham) as well as valuable centers in France and a strategic investment in Value Retail—the leading owner of premium outlet centers in Europe. Collectively, these three companies accounted for more than 11% of the Fund's capital at quarter-end and share three key similarities.

First and foremost, Land Securities, Hammerson, and Segro are all very well-capitalized property companies. Not only do they own high quality property portfolios that generate very predictable cash flows, but they are also prudently financed with loan-to-value ratios of 40% or less without any significant near-term maturities or major capital commitments, given the modest development projects underway. As a result, it seems likely that these companies are positioned to withstand any sort of downturn that the U.K. may face during this transition period and potentially take advantage of market dislocations. For instance, Land Securities has more than 2 billion GBP of excess capital, which could be used to provide liquidity for those with near-term capital needs (e.g., U.K. open-ended property funds) and purchase well-located development sites to set itself up for the next phase of development projects. Similar opportunities exist for Hammerson and Segro. We expect these well-financed companies will not only make it through this period, but will likely emerge stronger and more valuable.

Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Real Estate Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of July 31, 2016: Weyerhaeuser Co., 5.25%; Land Securities Group PLC, 5.18%; Forest City Realty Trust, Inc., Class A, 5.15%; Westfield Corp., 4.76%; FivePoint Holdings LLC, 4.63%; Rayonier, Inc., 4.61%; Cheung Kong Property Holdings, Ltd., 4.48%; Henderson Land Development Co., Ltd., 3.88%; Inmobiliaria Colonial S.A., 3.86%; Brookfield Asset Management, Inc., 3.79%

In addition to being well-financed issuers, the common stocks of Land Securities, Hammerson, and Segro are all trading at prices that represent material discounts to NAV. Undoubtedly the values for commercial and residential real estate will come under pressure as the multi-year process of the U.K. reworking its existing agreement with the EU ripples through the occupier market—especially the City and Canary Wharf sub-markets of London. However, it is our view that this period of uncertainty will have the biggest impact on those companies that have (i) large-scale speculative development pipelines underway where rental rates are likely to be cut to entice tenants, leading to lower returns for the projects, (ii) residential-led redevelopment projects where prices are already declining from highs reached in 2015 and unlikely to be as profitable as previously budgeted, and (iii) portfolios that are appraised at very low cap rates (i.e., initial yields) because of substantial rental rate growth assumptions which might moderate significantly in the near future. In the case of Land Securities, Hammerson, and Segro, more than 90% of the values of each company are comprised of diversified commercial real estate portfolios that are highly occupied and leased at below-market rents with an average lease term of more than 8 years. As a result, it seems unlikely that the cash flows will change materially during the two year “Brexit” period should the U.K. parliament ultimately enact Article 50 of the Lisbon Treaty. In fact, when looking out more than a few months it is quite possible that highly-occupied properties could even become more valuable should cap rates fall further as income oriented investors target the durable cash flow streams provided by well-leased U.K. properties that are now generating yields at historically wide spreads to 10-year gilts (U.K. treasuries), which are now yielding less than 1.0%.

And finally, these companies own highly strategic and sought after portfolios that have taken multiple decades to assemble. To the extent the shares of Land Securities, Segro, and Hammerson continue to trade at meaningful discounts to NAV, we believe resource conversion is likely to materialize. Similar to the U.S., in the U.K. there is a very active market for mergers, acquisitions, privatizations, spin-offs, share repurchases, tender offers and other corporate activities that management teams and boards might employ to collapse the discounts which currently exist. What makes this an especially interesting time as it relates to companies with high quality real estate portfolios, like these three businesses, is that not only are their stocks trading at substantial discounts to NAV, but the British pound is at a 31-year low relative to the U.S. Dollar and a number of other currencies. It is therefore not inconceivable that other investors with a long-term horizon such as a sovereign wealth funds, large scale private equity groups, or other global property companies might view this as an opportune time to enter into the U.K. property markets by making a significant investment into one of these companies or attempting to purchase them outright.

Outside of Land Securities, Segro, and Hammerson, the Fund has other investments in the U.K.—both directly and indirectly—all of which are included in the table below. With volatility in the U.K. subsiding from the days after the referendum, and prices returning to higher levels, it seems unlikely that the Fund will add materially to its current exposure. However, these investments represent a great deal of upside, particularly if the U.K. capitalizes on the opportunity to attract additional investment and corporate headquarters with lower tax rates and less regulation once outside of the EU. If so, the additional jobs created will serve to offset those financial service jobs that will inevitably be relocated to another market within the EU, allowing the U.K. to prosper like it has for centuries. With this in mind, the Fund will continue to monitor other opportunities in the U.K. market and look to increase its exposure further, especially if some of the companies that are involved with large-scale commercial or residential development projects finally become available at more attractive prices.

Company	% of Fund ¹	% in U.K. ²	Exposure
Land Securities plc	5.2%	100%	5.2%
Segro plc	3.1%	86%	2.7%
Hammerson plc	3.1%	71%	2.2%
Westfield Corp	4.8%	26%	1.2%
Brookfield Asset Management	3.9%	14%	0.6%
Millennium & Cophorne plc	1.3%	35%	0.4%
Savills plc	0.9%	45%	0.4%
City Developments	3.3%	11%	0.4%
Kennedy Wilson	1.1%	22%	0.3%
Total			13.3%

1 Fund weightings as of July 31, 2016

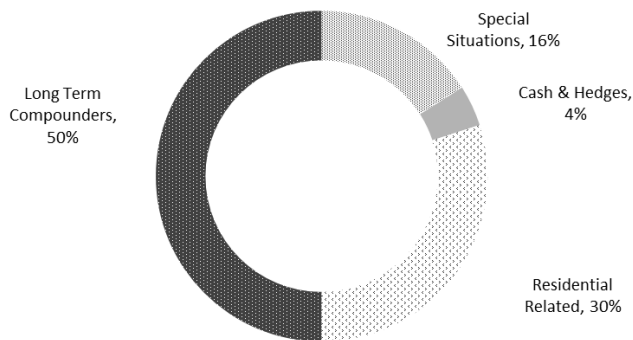
2 Percentage weights in U.K. are estimates

PORTFOLIO POSITIONING

After factoring in the aforementioned activity, the Fund has approximately 50% of its capital invested in the common stocks of real estate businesses that are involved in long-term wealth creation and seem positioned to increase their underlying NAVs by 10% or more per year through developments, redevelopments, and opportunistic investments (e.g., Forest City, Land Securities, Westfield, Cheung Kong, Henderson Land, and Brookfield). The weighting of these “long-term compounders” increased by nearly 8% during the quarter primarily due to the additions in the U.K. as well as price appreciation in most of the other underlying securities. Further, the Fund has 30% of its capital invested in real estate related businesses that have strong ties to the U.S. residential markets which continue to benefit from a further recovery in fundamentals as outlined in more detail below. This weighting was largely unchanged during the quarter. An additional 16% of the Fund’s capital is invested in special situations such as M&A candidates and other repositioning opportunities (e.g., Macerich, First Industrial, Colonial, IVG, Trinity Place Holdings). The weighting for these types of investments was reduced by nearly 6% during the quarter as the strong performance for most U.S. REITs during the first part of the

year (U.S. REIT Index increased by +18% through quarter end) led to the common stocks for a number of the Fund's U.S. REIT holdings to trade at prices that were in-line, or even in excess of, reasonable estimates of NAV, thus limiting the risk-adjusted return potential ahead (e.g., Tanger Outlets, Post Properties, Equity Commonwealth). After taking those divestitures into place, approximately 25% of the Fund's capital is now invested in U.S. REITs, including 10% in U.S. Timber REITs that trade at substantial discounts to private market values (Weyerhaeuser, Rayonier). The other 15% is in several commercial real estate REITs that trade at discounts to NAV with prospects for the NAV to increase through development and redevelopment activities (Forest City, Macerich, Vornado, First Industrial). Fund Management continues to monitor a number of other U.S. REITs for potential investment but will remain price conscious. At the current time, U.S. REITs are trading at 24 times free cash flow and at dividend yields of less than 4%--both historically expensive levels. Lastly, the Fund has 4% of its capital in Cash & Equivalents with hedges remaining in place on the Euro and Hong Kong Dollar exposure. Consequently, the Fund remains nearly fully invested with the portfolio trading at more than a 10% discount to Fund Management's conservative estimates of NAV for the underlying holdings at quarter end.

ALLOCATIONS AS OF JULY 31, 2016
(allocations subject to change)



U.S. RESIDENTIAL MARKETS

While most of the recent activity has been U.K.-centric, the Fund continues to have substantial interests in the U.S. residential markets where approximately 30% of the capital is invested in a select set of well-capitalized companies involved with timberlands (Weyerhaeuser, Rayonier), land development (Five Point, Tejon), homebuilding (Lennar), home improvement (Lowe's), and title insurance (FNF Group). In all cases, the fundamentals for these businesses continue to improve from the Great Depression-like levels that they endured during the U.S. housing crisis of 2007-2009.

To fully appreciate how much conditions have changed, it is worth noting some of the fundamental improvements over

the past five years (2011-2016). During that time period, there have been 13.7 million additional jobs added in the U.S., leading to (i) the unemployment rate falling from 9.5% to below 5.0% and (ii) millions of new homebuyers entering back into the market. In fact, existing home sales have returned to more normalized levels, recently surpassing 5.5 million annually, with the additional purchasing activity serving to reduce the amount of excess inventory (once above 11 months) down to historically low levels (currently below 5 months), leading to a recovery in residential prices and demand for new building. As a result, home improvement spending has increased by more than \$30 billion over the past five years to approximately \$150 billion annually and new construction activity has more than doubled with new home starts now at 1.2 million annually versus 500,000 just five years ago.

This fundamental recovery for the U.S. residential markets has benefited most of the companies held in the Fund. For instance, over the past five years (i) Lennar's home sales have increased by more than 150% as they delivered 25,000 homes in 2015 compared to less than 11,000 in 2010; (ii) Lowe's revenues have exceeded \$60 billion annually and the earnings per share have more than doubled given higher earnings and a reduced share count with material stock repurchases; (iii) Five Point has returned to selling lots that are now at prices that are in excess of \$500,000 per lot in active communities; and (iv) the profits derived from FNF Group's title business have increased by more than 60%. Recognizing conditions have improved vastly, certain positions have been reduced in size in the Fund—and some exited—as the discounts to NAV have narrowed with the capital being reallocated into securities with higher risk-adjusted return potential. However, we continue to have the view that there will be additional gains in the remaining holdings as residential construction activity and home improvement spending reverts back to more normalized levels.

Timber company investments, which make up nearly one-third of the Fund's residential exposure, are one component of the residential value chain that hasn't benefitted as materially over the past five years. To wit, Sawtimber prices (the price for sawlogs) are actually 30% below levels they were when the U.S. had similar levels of construction activity in 2007 and more than 40% below prices realized during the 2000-2006 timeframe. The primary reason timberland owners haven't enjoyed the same fundamental recovery as other residential businesses is that the additional demand for lumber in the U.S. over recent years (and, in turn, U.S. sawlogs) has mostly been met with additional supply from Canada. In fact, over the past five years the share of lumber sold in the U.S. being imported from Canada has increased from approximately 25% to nearly 35%, rendering a weaker pricing environment for both lumber and sawlogs than would normally be the case for the current amount of construction activity.

Interestingly, the recent surge in Canadian lumber imports has coincided with the expiration of the Softwood Lumber Agreement (“SLA”), a trade agreement that was formed between the U.S. and Canada in 2006 to put in place terms whereby the U.S. would lift tariffs and anti-dumping duties for Canadian imports provided lumber prices prevailed above agreed upon prices. This agreement was formed largely because lumber producers in Canada purchase logs from the government (not private timberland owners) at what are viewed to be subsidized prices. The SLA therefore essentially acted as a “governor” on the amount of lumber that could be supplied by Canadian producers. However, in October 2015 the SLA expired, leading to a one-year period where Canadian lumber producers do not face any limitations on importing into the U.S. as the various constituencies work to forge a new agreement. During this period, imports of lumber have increased further, leading to what seem to be tense negotiations amongst those directly involved in attempts to forge a new agreement before the one-year moratorium is up in October 2016.

Should a revised SLA be reached before the 2016 deadline, certain industry observers believe there is a high probability that the updated agreement will include additional caps to limit the amount of lumber that come into the US from Canada (e.g., limitation at 30% of US lumber consumed annually). If not, the US Department of Commerce could levy additional duties and tariffs in the short-term as it did prior to the formation of the SLA until a new deal is reached alongside NAFTA, the World Trade Organization, and other mediators. Either way the odds seem to favor a scenario where there is additional demand for lumber in the US with the continued increase in residential construction activity (particularly single-family homes which require three times more lumber than a multi-family unit) at the same time the supply coming from Canadian lumber producers will be somewhat more restricted than currently exists in this one-year standstill period. This should provide much needed relief to US lumber producers and timber owners including two of the Fund’s top holdings (Weyerhaeuser and Rayonier) which collectively account for more than 10% of the fund’s capital. In such a scenario, both businesses have the potential to generate meaningfully higher cash flows and dividends, likely serving to close the large discounts at which the shares currently trade relative to their NAVs.

We thank you for your continued support and look forward to writing to you again next quarter.

Sincerely,

The Third Avenue Real Estate Value Team



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M.J. Whitman LLC, Distributor. Date of first use of portfolio manager commentary: August 29, 2016

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