

March 31, 2018

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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 March 31, 2018. We are, however, saddened to report that Third Avenue's Founder, Marty Whitman, passed away at the age of 93 since last writing to you. As those that have interacted with Marty over his storied career know, he was one of the sharpest-minded investors in recent times. The "Whitman Way" was much more than just having success by adhering to his "safe and cheap" approach to investing though, as Marty also had an enormous impact on thousands by sharing his everlasting principles through writing, teaching, and mentoring over many years.

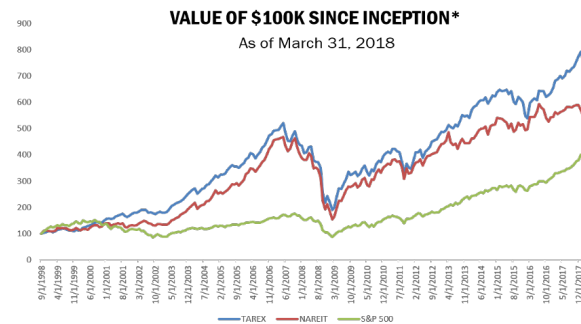
Fund Management was lucky enough to have worked closely with Marty for more than a decade, including the years after he stepped away from the day-to-day management of the Firm's flagship Third Avenue Value Fund in 2012. It was during that time that he further focused his attention on issuers that were incredibly well-capitalized, run by competent and aligned control groups, and had securities available for purchase at significant discounts to readily ascertainable Net Asset Value ("NAV"). Not only that, but he increasingly insisted those issuers have prospects to increase NAV by 10%, or more, per year, over the long-term. In his view this was where the real action was, and he called them "net-net's on steroids." A select set of opportunities that met this criteria included some of the Fund's key holdings, such as the common stock of Brookfield Asset Management, Wheelock & Co., Henderson Land, and CK Asset Holdings.

Our good friend's wisdom and insight has never been taken for granted. To wit, one should expect the vast majority of the Fund's capital to remain concentrated in these types of companies that are essentially engaged in long-term wealth creation. While we will continue to capitalize on other opportunities that are more suitable for a real estate dedicated portfolio, the Fund will also maintain some form of "dry powder" (i.e., excess cash balances) for investments into the fulcrum securities of troubled issuers with substantial real assets that Marty was originally heralded for (e.g., issuers needing to engage in restructuring, recapitalizations, or reorganizations). In our view, this is the "balanced approach" that Marty ultimately stood for as a one-of-a-kind value investor, and the one that will serve Third Avenue's shareholders best in the years ahead.

FUND PERFORMANCE

Through the first three months of the year, the Fund generated a return of -2.07% (after fees) versus -4.30% (before fees) for the Fund's most relevant benchmark, the FTSE EPRA/NAREIT Developed Index¹. Return figures vary from quarter-to-quarter. In Fund Management's view, a superior gauge of performance is the Fund's long-term results where it has earned an annualized return of +10.93% since its inception in 1998.

As highlighted in the chart below, this performance indicates an initial investment of \$100,000 in the Third Avenue Real Estate Value Fund would have a market value of more than \$750,000 as of quarter-end (assuming dividends had been reinvested), or more than double the amount 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.



*Hypothetical investment made since Fund Inception (September 17, 1998)
Source: Morningstar

ACTIVITY

Over the course of the Fund's nearly 20-year history, there have been a number of areas within the real estate universe that have been deeply out-of-favor for a period of time. Some of the most unpopular pockets have included Asian-based property companies after the SARS epidemic and the US residential market following the global financial crisis. Two others have included Continental European real estate companies amidst the Eurozone crisis and UK centric businesses after the "Brexit" referendum.

While the UK situation is still developing, each one of the other periods yielded incredibly profitable investments for contrarian investors who allocated capital to well-financed

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. The S&P 500 Index is an unmanaged index (with no defined investment objective) of common stocks. The S&P 500 Index is a registered trademark of McGraw-Hill Co., Inc.

and well-managed companies trading at significant discounts to NAV at the time and remained patiently invested until conditions improved. Using history as a guide, Fund Management continues to dedicate significant resources and capital to the most ostracized area of property today: retail real estate.

This is not to say that we are unaware of the secular shifts taking place in the retail landscape (both in the US and internationally). In fact, as we outlined in the Fund's first quarter letter last year, it is our view that the rise of e-commerce and enhanced delivery capabilities will continue to take a toll on: (i) those retailers that have been slow to adapt to today's multi-channel landscape (well-connected stores, on-line platforms, and distribution centers) and (ii) commodity-like retail locations that don't serve as a critical connection point between retailers and shoppers.

Notwithstanding, it is our view that the continued obsolescence of tertiary retail properties will lead to declining amounts of retail square footage over the medium-term, thus boosting the demand for strategic retail locations. This is especially the case for market-dominant malls and coveted street retail corridors in key urban centers, which are not only taking market share as less productive centers close (approximately 90% of sales are still in brick & mortar locations), but are also benefitting from additional demand as digitally native retailers (those that have started online) establish a physical footprint in flagship locations to showcase their offerings, interact with customers, and handle exchanges. Even Amazon.com continues to build out a physical footprint with the rollout of Amazon-branded stores in top locations, adding to the 450-plus store footprint it established with the Whole Foods acquisition last year.

Alongside this dynamic, there also seems to be a subtle shift in the economics of rents for strategic retail locations. In the past, rents were typically charged as a percentage of sales at the physical location (e.g., 15% of sales at top centers) whereas today retailers are sometimes paying higher levels for key locations since the store also supports the retailer's on-line business, serving as a location for pick-ups, exchanges, technical support, and increasingly ship-from-store capabilities. For this reason, we believe that rents at key strategic retail centers could approach 20% of in-store sales over time. With that framework in place, Fund Management selectively increased the Fund's retail exposure alongside the market volatility in the first quarter--primarily by initiating positions in the common stock of Acadia Realty Trust and Seritage Growth Properties--but also by re-allocating a significant amount of the previous investment in the common stock of Westfield Corp. to Macerich Co. common.

Acadia Realty Trust ("Acadia") is a US-based Real Estate Investment Trust ("REIT") that owns a high-quality portfolio of retail locations that are primarily concentrated in desirable US sub-markets. Key holdings for Acadia

include retail locations in the Gold Coast and Lincoln Park in Chicago, Tribeca and NoHo in New York City, Georgetown in Washington, D.C., and Pacific Heights in San Francisco. The portfolio is collectively 93% leased, and quite productive, generating sales per square foot in excess of \$500 on average. In addition to its core portfolio, Acadia has also established a sizable funds management business where it co-invests capital with institutional partners in more opportunistic retail transactions such as developments, redevelopments, and in retail companies with significant real estate holdings (e.g., Shopko, Mervyn's, Albertson's, etc.).

Over time, Acadia (which has been guided by CEO Ken Bernstein for the better part of 20 years) has generated outsized profits through its carefully crafted strategy of owning best-in-class retail locations and selectively investing in value-add retail deals. While the company is not immune to pressures within the retail space, the company seems well-placed with a cash-generative portfolio that is likely to retain its value and prospects to increase its NAV as it (i) delivers key redevelopment projects (i.e., City Centre in San Francisco and City Point in Brooklyn), (ii) utilizes its excess cash to make tuck-in acquisitions and repurchase shares at a discount to NAV, and (iii) puts the \$1 billion-plus of capital within its funds management business to work in higher-yielding transactions alongside some of the dislocations in the retail space.

Seritage Growth Properties ("Seritage") is a US-based REIT that was spun-out of Sears Holdings ("Sears") in 2015 with approximately 250 properties that were mostly leased to Sears and its affiliated retail brands (Sears, K-Mart, Sears Auto, and Land's End). As a standalone company, Seritage has been tasked with putting its legacy Sears and K-Mart locations to a higher-and-better use. This value creation effort will mostly be accomplished by sub-dividing the existing space and re-leasing to more productive retail concepts at significantly higher rates (the average in-place lease at the time of the separation was \$4 per square foot or less than 10% of what a "class-A" mall would typically command). In addition, Seritage essentially has free rein to monetize the excess land within its 3,000 acre urban portfolio by selling out-parcels at most locations, as well as undertaking more ambitious mixed-use redevelopment projects at some of the "triple-A" locations with key land parcels. Key near-term projects include the Sears box in Santa Monica, the K-Mart location in Honolulu, the Sears box and adjacent land at Aventura Mall in Miami and the Westfield UTC location in San Diego.

Since the time of the spin, Seritage and its management team (which is headed by CEO Ben Schall) have exceeded our expectations in terms of execution. In fact, the company originally derived about 80% of its rental income from Sears, but third-party retailers are expected to account for two-thirds of rents by the end of 2018 with significant space leased to other expanding retail and entertainment concepts such as TJ Maxx, Old Navy, Ross

Stores, Dick's Sporting Goods, REI, and Dave & Buster's. Further, the space occupied by these third-party retailers has been re-leased at average rents of \$18 per square foot, more than four times existing levels leading to double-digit returns on incremental capital expenditure and substantial value creation. Seritage has also made significant progress at some its key locations including gaining entitlements and approvals to activate more than 2 million square feet of redevelopments at Santa Monica, UTC, and Aventura.

Despite this, Seritage common has returned to the same levels where it was at the time of the spin (at around \$35 per share), which implies a value of about \$80 per square foot for its 37 million square foot retail portfolio. There are no doubt significant challenges ahead for Seritage in terms of re-leasing incremental space, potentially losing Sears as a tenant altogether, and funding a very significant redevelopment pipeline. However, when taking a longer-term view (alongside a willingness to provide more capital to support its redevelopment efforts), there are only a handful of property companies that have such a substantial opportunity ahead of them in terms of creating shareholder value by putting existing assets to a more productive use.

During the quarter, the Fund also increased its stake in the common stock of **Macerich Co.** ("Macerich"), a US-based REIT that controls the third most valuable mall platform in North America. The company's portfolio is 94% leased, generates more than \$600 per square foot in sales, and is largely focused on market-dominant locations in coastal markets with some of the most productive centers in the country. Key assets include Queens Center in New York City, Thousand Oaks in San Francisco, Tyson's Corner in Washington, D.C., Fashion Square in Phoenix, and Washington Square in Portland.

The company's management team made smart real estate moves coming out of the financial crisis by divesting secondary properties and concentrating the portfolio on top locations that were poised to thrive in the multi-channel retail environment described above. However, Macerich's Board of Directors rebuffed a bid from Simon Property Group in 2015 to buy the company for roughly \$94 per share. This unpopular move sent the stock price to levels well below the offer price, allowing the Fund to establish a position at a significant discount to our view of its private market value or NAV.

Since that time, Third Avenue has been supportive of the management team's efforts to boost margins, sell stakes in certain assets, and repurchase shares at a discount to NAV. However, now that nearly three years have passed since rejecting the bid, the company remains in the "penalty box" with investors, and its stock price is trading at more than a 35% discount to the Simon offer.

Given the fact pattern, it seems likely that Macerich will face additional pressure to close the discount to NAV (which is likely below the \$94 per share price offered

previously but still well in excess of existing levels). In the meantime, Macerich continues to enhance the underlying value of the business by undertaking the development of strategic retail locations in desirable markets (e.g., Philadelphia and San Francisco) and actively repurchasing department store boxes at its centers from less-relevant retailers thus putting the space to more dynamic use.

Factoring in this activity, the Fund now has approximately 20% of its capital invested in strategic retail properties that is largely comprised of (i) destination centers such as the market-dominant malls owned by Macerich in the US, Hammerson in the UK, and Wheelock in Hong Kong, (ii) street retail properties that are largely located in dense urban markets such as those owned by Acadia and Vornado Realty Trust in New York City, Land Securities in London, and Sun Hung Kai in Hong Kong, and (iii) department store locations with significant higher-and-better-use potential through redevelopment with investments in Seritage, Trinity Place Holdings, and the debt of Neiman Marcus.

There remains room to increase this allocation further, however the Fund has a self-imposed guideline of limiting the amount of capital invested in a single property type to one-third of the total portfolio. For perspective, retail accounts for approximately 28% of the Fund's primary benchmark (although much of it does not seem to be nearly as strategic).

Outside of the retail activity, the Fund also increased its position in the common stock of **Forest City Realty Trust** ("Forest City"), a US-based REIT that owns a high-quality portfolio of office and multi-family properties in some of the top US markets. The company also controls key development sites with projects in Denver (Stapleton), Washington, D.C. (The Yards), and San Francisco (5M and Pier 70).

Forest City has been a long-time holding that Fund Management has been actively involved with in the past. Back in 2011, Third Avenue Management filed a "13-D" with the Securities and Exchange Commission signaling that it was engaged in discussions with Forest City's management team and board about implementing certain strategic changes. After that period, Forest City elected to sell non-core assets, reduce debt levels, improve disclosure, and enhance its corporate governance. As a result, the implied valuation improved significantly.

Not satisfied, Forest City undertook additional initiatives in 2016 including converting from a C-corporation ("C-corp") to a REIT as well as collapsing its dual class share structure. These changes were viewed positively by most, however in 2017 Forest City also announced that it would explore strategic alternatives including a potential sale of the company to close the discount entirely.

During the quarter, Forest City concluded the process and disclosed that it had received a preliminary offer to buy the company at \$25.00 per share. While at a premium to

prevailing prices, the Board rejected the bid since the offer was at a discount to its private market value (and likely due to the \$4-5 per share tax liability that the company would incur should it sell its business within five years of converting to the REIT tax structure). At the same time, Forest City also announced that it would add 9 new directors to the board making 11 of the 13 members totally independent.

Following the news, Forest City’s common stock fell below \$20 per share, allowing the Fund to increase its stake to roughly 5% of total capital. Looking out over the next three years, it seems likely that Forest City will be able to increase its NAV by implementing additional cost cuts in its real estate portfolio (thus boosting net rental income) as well as by selectively activating profitable developments and repurchasing shares at a significant discount to NAV. Should the stock price not respond in due course, it is our belief that the newly constituted board will likely revisit strategic alternatives--which could include splitting the business into two more acutely focused office and multi-family companies--or selling the business outright once the tax issues have passed. Either way, Fund Management believes there is a tremendous amount of value to be surfaced in this next iteration.

FUND POSITIONING

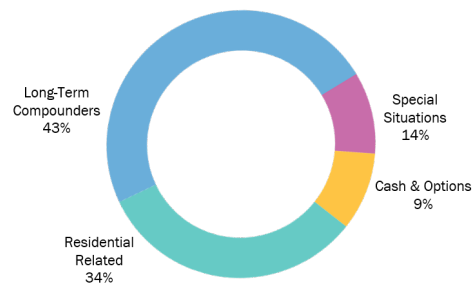
After accounting for the most recent activity, the Fund ended the quarter with approximately 43% of its capital invested in property companies that are involved in long-term wealth creation. These holdings primarily include: CK Asset Holdings, Brookfield Asset Management, Land Securities, Forest City Realty Trust, Vornado Realty Trust, Capital and Counties, Wheelock & Co., and Henderson Land. Each of these enterprises is very well-capitalized, trades at a discount to NAV, and seems capable of increasing NAV by 10% or more per year (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 34% of its capital invested in real estate-related businesses that 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 further recovery in housing fundamentals, particularly from an increase in the construction of single-family homes and higher levels of residential purchase activity in the US.

An additional 14% of the Fund’s capital is invested in special situations such as Millennium & Copthorne in the UK, Trinity Place Holdings and Macerich in the US, Wharf Holdings in Hong Kong, and the Bank Debt of Neiman Marcus in the US.

The remaining 9% of the Fund’s capital is in cash & equivalents (e.g., short-term US Treasuries). Cash balances were reduced by approximately 5% during the quarter, mostly due to the new investments in Acadia and Seritage, but also from the Fund increasing its positions in the common stock of Macerich, Forest City, Amerco, Vornado, Capital and Counties, and Lennar Corp. B shares at prices that represented significant discounts to our estimates of NAV. The Fund also maintains certain hedges, most notably relating to its exposure to the Hong Kong Dollar but also options outstanding relating to JBG Smith, a potential beneficiary of tightening fundamentals in the Washington, D.C office market. This is especially the case if Amazon were to select the D.C. area for its widely publicized “HQ-2” search.

ALLOCATIONS AS OF MARCH 31, 2018
(allocations subject to change)



FUND COMMENTARY

In recent discussions with Fund stakeholders, we have frequently been asked about the recent changes to the US tax code and their potential impact on real estate fundamentals (e.g., a reduction in the corporate tax rate from 35% to 21% and the reduction of the deductibility of state and local income tax payments in determining federal income).

Now that the Tax Cut and Jobs Act has passed into law, we can say that “net-net” the revisions seem to be a positive for the Fund’s holdings. Reason being: both commercial and residential real estate are likely to benefit from higher levels of economic output (and thus higher levels of demand for commercial property) as well as increased amounts of “take-home” pay for most employees (boosting the affordability of monthly mortgage payments). Further, approximately two-thirds of the Fund’s holdings in the US are tax-paying C-corporations not REITs (that forego paying corporate income tax in exchange for distributing 90% or more of net income as dividends). Therefore, a significant reduction in the corporate tax rate should lead to higher levels of cash flows and earnings for a number of the Fund’s US investments (Lennar, PNC Financial Services Group, Lowe’s, Amerco, et al).

There are, however, some potential drawbacks. For instance, should the tax cuts serve to boost economic growth in the US, one could expect higher rates of inflation,

and in turn higher short-term and long-term interest rates. As we have discussed in the past--and factored into our underwriting for years--higher rates are likely to lead to real estate investors demanding higher initial yields (i.e. cap rates) on investments, which would serve to reduce property values if higher cap rates aren't equally offset with higher levels of income. Also, the reduction of the deductibility of state and local income taxes (alongside a \$10k cap on property tax deductions) could serve to reduce the appeal of residing in high tax-states like New York, Illinois, and California, in turn boosting demand for low-tax areas like Florida, Texas, and Nevada. At this point, there have been few signs of shifts being made in mass, but such a scenario remains a consideration over the medium-term for a number of markets.

While not widely discussed, another impact of the tax-code changes could include certain US REITs electing to become C-corps or "de-REITing". Fund Management would welcome this move as Third Avenue has always preferred the real estate operating company ("REOC") structure. In our view, REOCs have two key advantages. One, it seems to be a more reliant business model as the companies can typically self-finance their expansion whereas REITs are more often forced to rely on asset sales and the capricious capital markets to raise new proceeds. Our late founder Marty Whitman helped shape this view having been on Wall Street in the 1970's when a number of REITs filed for bankruptcy (which may have occurred in more cases during the financial crisis had the distribution requirements not been changed to alleviate pressure on most US REITs). Two, retaining capital and reinvesting in the business is a more tax-efficient way to compound capital over the longer-term, which is our primary goal as a real estate fund that seeks to maximize total return with an emphasis on capital appreciation not current income.

The REIT structure does make perfect sense for companies that own more static pools of assets. This is especially the case for property types that do not require substantial cap-ex, as it allows the true free cash flow to be distributed to shareholders via dividends on a more tax effective basis. For instance, the Fund's investments in Weyerhaeuser and Rayonier are ideally suited for the REIT structure as these timber REITs primarily sell logs and distribute the profits to shareholders via dividends (which is actually taxed as capital gains vs. ordinary income due to the favorable tax treatment of timber) and do not require meaningful cap-ex in terms of re-planting 3-4% of their forests each year. Other property types that are not held in the Fund, such as "triple-net" REITs, self-storage REITs, and healthcare REITs, also fall into this camp.

On the other hand, certain REITs that have significant development, redevelopment, and other cap-ex needs could undoubtedly benefit from "de-REITing". For instance, a prime set of real estate companies that have an expanding need for retained capital are mall REITs, as they are putting increasing amounts of capital to work by repurposing obsolete department stores into more

appealing retail, entertainment, dining, and mixed-use concepts. Should these companies become C-corps, they could likely accelerate the transformation of their portfolios in this multi-channel retail environment and boost underlying NAV in the process as the incremental investment has generally been profitable. Fund holdings Macerich and Seritage are two that could benefit from such a move, but the broader mall-REIT space could as well.

There are also a number of office REITs that have significant cap-ex programs as they refurbish their properties to become more appealing given tenant demand for "live-work-play" environments. Two holdings in the Fund that could speed up the redevelopment of key assets as C-corps include Vornado Realty Trust (which is redeveloping the Penn Station area in New York) and JBG Smith Properties (that is undertaking significant redevelopment at Crystal City). Additional retained capital could also be used to repurchase shares if the stocks remain at meaningful discounts along the way.

Our due diligence indicates that the process of converting from a REIT to a C-corp is basically a "check-the-box" election with one important caveat: after the C-corp election is made, a company has to wait five years before having the option to elect REIT tax status once again. In most cases, these companies' redevelopment efforts are likely to last this long, so this should not be a significant issue and could actually establish a very clear runway to execute on redevelopment plans. Further, the capital that is being retained and reinvested is mostly deductible for federal tax purposes, so the actual tax expense is likely to be significantly less than the published 21% corporate tax rate.

Converting from a REIT to a C-corp is no doubt a contrarian idea. In fact, most industry participants would probably dismiss the idea entirely especially when contemplating the short-term selling pressure that would result of being removed from REIT indices. A bold move like this is sometimes necessary, though, to generate outsized returns. For those companies that are truly looking to maximize the value for shareholders over the long-term, it is one that we believe many should now consider.

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

Sincerely,

The Third Avenue Real Estate Team



Jason Wolf
Portfolio Manager



Ryan Dobratz
Portfolio Manager

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Date of first use of portfolio manager commentary: April 20, 2018

THIRD AVENUE REAL ESTATE VALUE FUND

INSTITUTIONAL: TAREX | INVESTOR: TVRVX | Z: TARZX

APPENDIX

March 31, 2018

FUND PERFORMANCE

	as of 3/31/18	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TAREX (Institutional)	10.61%	5.78%	9.03%	6.35%	10.93%	9/17/1998	
TVRVX (Investor)	10.37%	5.52%	8.77%	(n/a)	10.13%	12/31/2009	

TOP TEN HOLDINGS

	% of Portfolio
Lennar Corp.	6.0%
CK Asset Holdings, Ltd.	6.0%
Weyerhaeuser Co.	5.3%
Rayonier, Inc.	5.2%
Forest City Realty Trust, Inc., Class A	5.0%
Henderson Land Development Co. Ltd.	4.7%
Five Point Holdings, LLC, Class A	4.7%
Land Securities Group PLC	4.6%
Brookfield Asset Management, Inc.	4.3%
PNC Financial Services Group, Inc.	4.0%

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 1.11%, 1.36% and 1.01%, respectively, as of March 1, 2018. 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 web site 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

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