

December 31, 2018

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Dear Fellow Shareholders:

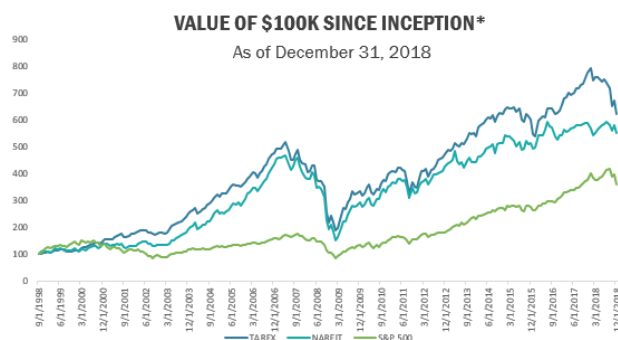
We are pleased to provide you with the Third Avenue Real Estate Value Fund's (the "Fund") report for the year ended December 31, 2018. For the calendar year, the Fund generated a return of -19.91% (after fees) versus -4.68% (before fees) for the Fund's most relevant benchmark, the FTSE EPRA NAREIT Developed Index¹.

Some of the most notable detractors during the year included the securities of businesses involved with the US residential markets and certain international property markets, such as the UK and Hong Kong. While these areas contributed positively to performance in 2017 (when the Fund provided a return of +22.12%), during the most recent year they seemed to be impacted by "top-down" macro-economic concerns, as opposed to "bottom-up" fundamental developments, leaving the long-term investment thesis for these securities intact. Further, the recent volatility has led to the price-to-value proposition for the Fund's holdings to become more compelling than at nearly any other point in the past decade.

Shorter-term periods of stark dispersion relative to the broader real estate indices (such as the past six months) are not a new phenomenon for the Fund. In fact, these stretches are to be expected from time-to-time given the Fund's contrarian approach of investing capital into real estate securities that are generally out-of-favor in the short-term (allowing them to be purchased at bargain prices) but incredibly well positioned long-term (providing a long run-way to compound capital). Although not always pleasant, it has been our experience that embracing these temporary dislocations and remaining concentrated on a select set of well-financed and well-managed businesses with common stocks trading at material discounts to durable estimates of Net Asset Value ("NAV") can be a

superior path to creating wealth over the long-term—Third Avenue's ultimate goal.

By following this approach over the past two decades, the Third Avenue Real Estate Value Fund has earned an annualized return of +9.41% 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 in excess of \$620,000 as of December 31, 2018 (assuming distributions had been reinvested), or more than one-and-a-half times 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: Bloomberg

While long-term returns have exceeded +9% per annum, there have been moments in time when valuations for the underlying holdings have been particularly compelling. Now is one of them. To wit, for the past decade Fund Management has tracked the discount at which the Fund's investments trade relative to conservative estimates of NAV (when viewed in the aggregate). Outside of the Financial Crisis, the only period where the discount to NAV has exceeded 25% (as it did at the end of the 2018 calendar year) was from August to October in 2011, amidst the US debt ratings downgrade and European sovereign crisis.

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.

Similar to then, Fund Management has (i) reduced the Fund's cash balance below 3.0% of net assets by investing excess capital into the deeply discounted securities of well-capitalized entities (see activity below) (ii) added to their personal investments in the Fund, and (iii) been encouraging other like-minded, long-term investors to also consider taking advantage of the recent market volatility by adding to their investment as well. Only time will tell what 2019 has in store, but 2012 (the year following similar implied valuations) proved to be a prescient time to be invested. The Fund provided a total return of +36.01% for the 2012 calendar year when including dividends.¹

Activity:

More than 30 years ago, Penguin Books published *Filters Against Folly: How to Survive Despite Economists, Ecologists, and the Merely Eloquent*. Ahead of his time, author Garrett Hardin presented a straightforward framework for getting to the heart of a complex matters by applying qualitative, quantitative, and ecological filters in problem solving. In the simplest form, Hardin encouraged readers to challenge blanket statements and find hard data that could support alternative views, as well as to seek out "side-effects" which might lead to outcomes that would diverge from widely held expectations.

Fund Management has incorporated Hardin's framework (more formally known as the *Literate*, *Numerate*, and *Ecological* filters) into its process of analyzing securities for a number of years now and today finds it particularly relevant to two areas of the global real estate universe: the UK commercial markets and the US residential markets.

To begin with, the UK commercial real estate market has been out-of-favor since the country elected to leave the European Union in its non-binding referendum ("Brexit") in June 2016. The central London office market has been particularly hard hit from a sentiment perspective, with most holding the view that substantial job losses in the financial services sector would curtail demand and lead to reduced rental rates, occupancy levels, and thus lower property values. Fund Management has challenged this belief from the onset, instead holding the view that London would continue to thrive over the longer-term given its long list of advantages as a place to conduct business for a wide-set of industries (e.g., rule of law, flexible labor rules, deeply educated employee base, English language, time-zone advantages, modern infrastructure, mass transport, etc.).

1. Past Performance does not guarantee future results or performance.

While not always a focus of media coverage, the Numerate filter would so far support this contrarian view. In fact, despite Brexit, the London office market had one of its strongest years on record in 2018 with more than 146 million square feet of leases signed and occupancy rates surpassing 95%--a historically high level as the pause in the financial services sector has been more than offset by gains in other areas such as technology and media. While a "hard Brexit" scenario could certainly lead to a shifting dynamic, there is another major factor in play: the Crossrail (a high speed rail that increases access across East and West London and will be formally known as the Elizabeth Line) is set to open in 2019. With the service bringing more than 1.5 million people within a 45 minute commute to the central London market, businesses are increasingly relocating to central London.

With that backdrop, the Fund initiated a position in the common stock of **Derwent London plc** ("Derwent") during the quarter. This UK Real Estate Investment Trust ("REIT") is one of the leading office owners in central London, with a focus on the West-End and Tech-Belt submarkets where it owns nearly 5 million square feet of properties that are more than 97% leased. The company is also incredibly well-capitalized (the net debt to asset ratio is currently around 15%) and trades at a material discount to its NAV despite having created an enormous amount of value by repurposing well-located, but underutilized, properties in its core markets for the better part of 20 years now under the leadership of long-time CEO John Burns and Derwent's tenured team.

Looking out over the next three to five years, Derwent seems very well positioned to create additional value as it (i) captures the embedded "mark-to-market" opportunity in its existing portfolio with rents that are 35% below market levels on average, (ii) moves ahead with certain redevelopment projects such as the Soho House project and Featherstone Building, and (iii) benefits from the structural changes in the market that the opening of the Crossrail will bring. Fund Management estimates that more than 60% of the company's portfolio is within a ten-minute walk from a Crossrail station, and Derwent owns nearly 600k square feet of properties surrounding the Farringdon Station--which will act as one of the primary transport hubs given its connections to the Crossrail, Thameslink (North-South train line), and London underground lines.

The US residential markets are another area that seem to be painted too broadly with a negative brush. It is well-documented how challenging conditions were in the 2008-2010 timeframe (when housing starts averaged less than 600,000 per year vs. the past 50 year average of more than 1.5 million). However, the past eight years have been characterized by a slow—but steady—return to more normalized conditions with housing starts reaching 1.3 million in the most recent year. The pace of the recovery tapered off in 2018 though, as further increases in average selling prices (ASP's) and higher mortgage rates stretched the affordability equation, at the same time that changes to the US tax code impacted transaction activity in certain high-tax states. Amidst this pause, it seems to have become a more widely-held belief that the recovery has ended—a stance that Fund Management also challenges.

This view is based upon fundamental data (the Numerate filter), which suggests that home inventories remain at historically low levels in most major markets (both single-family homes and multi-family units) as opposed the 2008-2010 time period when they approached record highs after significant overbuilding. For instance, during the 2008-2010 timeframe, vacant homes for sale averaged more than 2.2 million nationwide. Since that time, the total amount has been reduced by more than 40% and single-family vacancy rates now stand at 1.6% of total stock--slightly below the 60-year average. At the same time, excess inventory has cleared, and solid job growth has led to a rapid increase in household formation (1.3 million formed in 2018) creating a need for additional housing.

Put otherwise, Fund Management is operating with the view that production levels will increase from the current pace over the medium-term. This expectation is further supported by a less often discussed trend: accelerating migration within the US. For instance, US Census data shows that during 2018 more than 250 people moved to Dallas every day, as well as more than 100 people (again each day) to the greater metropolitan areas of Houston, Washington, D.C., Austin, Phoenix, Las Vegas, Seattle, Orlando, Atlanta, and Charlotte. With low levels of supply and further household formation, Fund Management dismisses the idea that the recent pause will prove permanent on a nationwide basis-- instead believing that the production of additional housing stock will be necessary to satisfy further demand in these “18-hour” cities.

As a result, the Fund increased its exposure to certain businesses with strong ties to the US residential markets, including the Common stock of **Weyerhaeuser**. A long-time holding in the Fund, the US REIT is the largest private owner of timberlands in North America with more than 13 million acres of highly-productive acreage that is mostly located in the Pacific Northwest (where it grows Douglas Fir) and the US South (where it grows Southern Yellow Pine). In addition, the company owns some of the largest lumber, OSB, and engineered wood products businesses in the US, as well as profitable real estate and resources subsidiaries.

Weyerhaeuser is an incredibly well-capitalized company with a net debt to asset ratio below 20% and seems poised to increase its cash flows over time, particularly as additional lumber capacity is added in the US South (5 million board feet of additions are planned through 2020 or 25% of current capacity) thus increasing the demand—and likely prices—for southern saw logs in select wood baskets. Nonetheless, the company's common stock trades at a material discount to NAV implying a value of less than \$2,000 per acre without assigning any value to the wood products segment which has generated more than \$1.0 billion of cash flow in the most recent year (or \$8 per share of value at a 5 times EV/EBITDA multiple). Should the discount to NAV for Weyerhaeuser common persist, the company is likely to continue to repurchase shares below private market values and might even separate certain portions of its wood products business to surface value. In the meantime, the holding has a dividend yield in excess of 5.5%.

Outside of the additions to the UK commercial real estate and US residential holdings, the Fund also repositioned its exposure to two real estate-centric US banks during the quarter. The Fund had held positions in the common stock of **Zions Bancorporation** (“Zions”) and the TARP Warrants of **PNC Financial Services Group** (“PNC”) for a number of years with the view that these well-capitalized entities were trading at substantial discounts to private market values. It seemed likely that a higher interest rate environment would allow the companies to boost their net interest margins, thus leading to higher earnings and an improved valuation—while at the same time providing the Fund with a “hedge” against higher rates. With the vast majority of the private market value being recognized in Zions common, the Fund exited its holding at a profit.

The Fund also completed selling approximately two-thirds of its PNC TARP Warrants during 2018 (realizing more than \$60 mm of profit in the process) and converted the remaining one-third of the warrants to PNC common stock, which remains in the Fund and seems grossly undervalued when taking into account the company's 22% stake in separately-traded BlackRock.

Fund Positioning:

After incorporating the most recent activity, the Fund ended the quarter with approximately 48.1% 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, Berkeley Group, Henderson Land, Wheelock & Co., JBG Smith Properties, and Derwent London. Each of these enterprises is very well-capitalized, trades at a discount to our estimate of NAV, and 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 31.0% 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 the aforementioned 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, as opposed to further home price appreciation.

An additional 18.5% of the Fund's capital is invested in special situations such as: Macerich, First Industrial, and PNC Financial Services in the US; Capital & Counties plc in the UK; and Wharf Holdings in Hong Kong.

The remaining 2.4% 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.

ALLOCATIONS AS OF DECEMBER 31, 2018

(allocations subject to change)



Fund Commentary:

When the Tax and Jobs Act was enacted into law in 2017, most focused on the reduced corporate and federal tax rates. However, one less-discussed section of the bill could have an even more substantial impact on the US property markets for years to come: special rules for capital gains invested in opportunity zones (USC 1400Z-1/2). This portion of the package incentivizes investment into low-income communities across the US and was assembled with bi-partisan support.

The key aspects of these "opportunity zones" include allowing investors to (i) defer, and even reduce, capital gains on realized profits from a wide range of investments (e.g., stocks, bonds, real estate, LLC's, etc.) should the capital be reinvested into a qualified opportunity fund and (ii) the ability to forego taxes on the incremental investment gains should it be held for more than 10 years. Qualified opportunity funds are eligible to invest directly into real estate (provided that property is substantially improved in less than three years) as well as in qualified opportunity zone businesses (in which substantially all of the tangible property owned or leased by the taxpayer is in a qualified opportunity zone).

Following approval by the US Treasury in early 2018, nearly 9,000 census tracts across the greater 50 states--as well as all of Puerto Rico--were designated as qualified opportunity zones. In addition, the US Treasury provided further guidance in October addressing key questions relating to the "substantial improvement test." As a result, qualified opportunity funds have begun to move forward with investment in certain designated areas.

While still in the very early stages, the initial focus has been on "shovel-ready" development projects that qualify as opportunity zone property. Over the medium-term, it seems reasonable to expect that larger development projects will be undertaken and that significant business

formation will occur in these designated zones. In addition, it seems likely that approved areas will see opportunity funds capitalize on the increasing trend of building single-family homes for rent (which in this case could be sold after 10 years without incurring capital gains tax should profits be realized).

Given the incentives that opportunity zones enjoy from an investment and business formation standpoint, Fund Management has been dedicating resources to analyzing which publicly-traded real estate companies will be impacted. In particular, the team has been assessing companies that control key land positions within the designated areas that seem suitable for development, as well as existing properties that seem ripe for repurposing.

There are a handful of companies with significant exposure to these types of properties within opportunity zones, but none much more meaningful than **Five Point Holdings**--a core holding of the Fund. The company is the largest developer of master-planned communities in coastal California with plans to build more than 40,000 homes and 20 million square feet of commercial space within its well-located sites in San Francisco, Los Angeles, and Orange County. One of its key projects is the redevelopment of the Shipyards in San Francisco, where it has plans to build more than 6.1 million square feet of commercial space and nearly 12,000 homes. While the initial focus of the project is repurposing the former site of Candlestick Park, the adjacent portion of the project (known as Hunters Point) has been designated as an opportunity zone in its entirety.

Five Point is currently working alongside a number of constituents to resolve environmental concerns on portions of Hunters Point. Should these be addressed, it seems likely that the regeneration of this site would be accelerated (in conjunction with opportunity fund investments) serving to unlock the economic potential of the area, as well as provide much-needed housing in one of the most supply-constrained markets nationally.

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

Sincerely,



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: January 18, 2019

THIRD AVENUE REAL ESTATE VALUE FUND

INSTITUTIONAL: TAREX | INVESTOR: TVRVX | Z: TARZX

APPENDIX

December 31, 2018

FUND PERFORMANCE

	as of 12/31/18	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TAREX (Institutional)	-19.91%	1.17%	2.45%	9.86%	9.41%	9/17/1998	
TVRVX (Investor)	-20.15%	0.91%	2.19%	(n/a)	6.80%	12/31/2009	

TOP TEN HOLDINGS

	% of Portfolio
CK Asset Holdings Ltd.	6.7%
Lennar Corp.	6.6%
Weyerhaeuser Co.	5.8%
Henderson Land Development Co. Ltd.	5.0%
Wheelock & Co. Ltd.	5.0%
Brookfield Asset Management, Inc.	5.0%
Macerich Co.	4.9%
Rayonier, Inc.	4.7%
Five Point Holdings, LLC, Class A	4.2%
Berkeley Group Holdings plc	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.

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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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