Dear Fellow Shareholders:

We are pleased to provide you with the Third Avenue Real Estate Value Fund’s (the “Fund”) report for the period ended December 31, 2021. For the most recent calendar year, the Fund generated a return of +30.54% (after fees) versus +27.21% (before fees) for the Fund’s most relevant benchmark, the FTSE EPRA NAREIT Developed Index.1

Notable contributors to performance during the quarter included the Fund’s investments in some of the leading owners of logistics real estate globally (Prologis, Segro, and First Industrial) as well as certain US-based residential-related businesses (Lennar, Lowe’s, and Weyerhaeuser). The primary detractor to performance was Five Point Holdings—a US-based real estate operating company that remains well-capitalized and positioned to unlock considerable value from its distinctive land positions, in Fund Management’s view. Further details on these holdings, as well as the Fund’s recent investments in the common stock of InvenTrust Properties and Catchmark Timber Trust, are included herein.

Not all years are likely to be as rewarding as the most recent one. Instead, the Fund’s long-term results seem to be a more relevant gauge of performance having provided an annualized return of +9.90% (after fees) since its inception more than twenty-three years ago. As highlighted in the chart below, this performance indicates that an initial investment of $100,000 in the Fund would have a market value in excess of $900,000 (assuming distributions had been reinvested), or more than the same $100,000 would be worth had it been placed into a passive fund tracking the Fund’s most relevant benchmark (as well as the S&P 500).2

In the value investing classic Special Situation Investing: Hedging, Arbitrage, and Liquidations, author (and esteemed investor) Brian Stark observed that “superior risk-reward opportunities are most likely to be found in areas not intensively scrutinized by professional investors.” One area that Stark emphasized in particular included “risk arbitrage opportunities” where individuals can “buy securities selling at a discount from the value others have publicly indicated they are willing to pay for such a security in the future.”

During the quarter, the Third Avenue Real Estate Value Fund entered into such a transaction by purchasing the common stock of InvenTrust Properties at prices below where the company had offered to repurchase shares via a tender offer. However, unlike traditional “risk arbitrageurs”, Fund Management’s intentions were to forego the buyback in anticipation of more value being recognized as the management team executed on its business plan for this recently listed business.

Founded in 2004, InvenTrust Properties Corp. (“InvenTrust”) historically operated as a privately-held Real Estate Investment Trust (“REIT”) that invested in a diverse set of commercial properties. However, the entity seemingly initiated a process to create liquidity for its investor base around 2015 when it internalized its management agreement with Inland Real Estate Group and subsequently spun-off its hotel assets (Xenia Corp.) and office properties (Highland REIT) into separate companies. The remaining shopping center portfolio served to form the InvenTrust platform, which was finally listed as a publicly-traded REIT during the quarter.

At the time of the listing, InvenTrust controlled nearly 10 million square feet of predominantly grocery-anchored retail properties that were approximately 93% occupied and located in select Sunbelt markets including Austin, Miami, Raleigh, and Tampa. The company also had very modest debt levels allowing it to launch a “tender offer” to purchase up to 4.0 million shares to support the transition to the public markets.

Alongside this process, the Fund began to purchase InvenTrust common given Fund Management’s view that InvenTrust (i) controls a hard-to-replicate portfolio of necessity-based retail centers leased to “credit tenants” in desirable markets, (ii) has amongst the most conservative financial positions in the US-REIT sector with a loan-to-value ratio below 20%, (iii) is managed by an aligned and like-minded control group, and (iv) possesses strong prospects to increase its cash flows, and underlying value, by increasing rents, filling small shop vacancy, undertaking selective redevelopment, as well as utilizing its

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2. Complaints about the stock market are well-founded. In the annual report of 1998, the Fund’s management team observed that the “market is by no means perfect...complex issues that are best left to the experts...the long-term investor is likely to be rewarded by being patient and pursuing a long-term strategy.”
balance sheet to make targeted (and accretive) acquisitions in its core markets.

While the prices paid for InvenTrust were at levels below those offered in the company’s tender offer, the Fund waived its option to participate in the buyback. Instead, Fund Management believes that the superior “risk-reward opportunity” for this particular investment involves holding the position and participating in the value recognition that is likely to unfold as InvenTrust executes on the aforementioned items. Furthermore, as InvenTrust is added to relevant real estate indices and benchmarks, the potential investor base is likely to expand, which could serve as a catalyst to eliminate the large discount at which its shares trade relative to conservative estimates of Net-Asset Value (“NAV”) and its public-market peers.

Whereas an inclusion in index funds and benchmarks can serve to create more interest in certain securities (and often times greater efficiency), the removal of securities from such vehicles can oftentimes have the opposite effect. In fact, if **Special Situation Investing** were to be updated it would likely include an entire section dedicated to the impact that these large pools of passive capital can have on security prices when exiting certain holdings—with the Fund’s recent investment in Catchmark serving as precedent.

Founded in 2005 and listed in 2013, **Catchmark Timber Trust Inc.** (“Catchmark”) is a US-based REIT that owns approximately 370,000 acres of productive timberlands in the US South. These holdings are primarily located in some of the top “wood baskets” in Georgia, South Carolina, and Alabama where the company primarily grows and harvests Southern Yellow Pine (“SYP”) that is used in residential and commercial construction, as well as pulp and paper products.

Although Catchmark is a “pure-play” owner of Southern timberlands today, the company’s path to arrive here has not been without challenges. Most notably, Catchmark was required to book a significant impairment on its previous $200 million subordinated investment in the 1.1 million acre “Triple T” venture, which seemingly led to Executive and Board changes. Further, the existing control group had to take other actions to “right size” its balance sheet and payout ratios by selling off non-core timberlands—as well cutting the company’s dividend by 50% in the most recent quarter.

These moves were undoubtedly in the interests of long-term holders, but they unavoidably led to pressure on the company’s shares—which appeared to be further exacerbated when Catchmark was removed from a major real estate index in November. Alongside these developments, Catchmark common declined by more than 40% during the quarter, allowing the Fund to initiate a position at prices that seemed rather compelling relative to a conservative estimate of Catchmark’s NAV.

Moving forward there seem to be two likely paths for Catchmark to address this price-to-value disconnect. Either (i) the company can prove capable of improving its cost of capital alongside strengthening SYP pricing and additional income from ancillary activities (i.e., resulting in a stock price at, or above, NAV) or (ii) its portfolio could garner interest from strategic buyers at prices that more closely reflect the private market value of its holdings (such as other US Timber REITs seeking to expand or multi-national energy groups pursuing investments to offset carbon emissions).

With the addition of Catchmark, and factoring in its more substantial positions in Weyerhaeuser and Rayonier, the Third Avenue Real Estate Value Fund has more than 10.0% of its capital invested in timberlands. The appeal of investing in this often overlooked sector remains relatively straightforward as highly productive (and professionally managed) timberlands tend to provide competitive current yields through annual harvesting, reasonable prospects for capital appreciation through biological growth, and opportunities to capture “higher-and-better-use” values over time.

The economic proposition of owning timberlands seems to be improving, however. This is particularly the case in select regions within the US given (i) added demand for wood-based building with higher levels of residential construction and broader acceptance of cross-laminated timber (CLT) for mid-rise and commercial buildings, (ii) a wider adoption of carbon solutions incentivizing certain owners to defer harvesting with alternative sources of value, and (iii) an emerging export market that is shifting the supply and demand dynamics so that “more value flows back to the stump”—which very well could accelerate in 2022 with large-scale logging restrictions recently implemented in globally important markets (i.e., British Columbia and Russia).

In addition to initiating these positions in InvenTrust and Catchmark, the Fund also (i) increased its exposure to Preferred Apartment Communities and National Storage REIT, (ii) reduced its holdings in Derwent London plc and JBG Smith Properties, and (iii) exited Vornado Realty Trust and Seritage Growth Properties.

**POSITIONING**

After incorporating this activity, the Fund had 41% of its capital invested in **Residential Real Estate** companies that have strong ties to the U.S. and U.K. residential markets, where there are serious supply deficits after years of under-building. In conjunction with record-low inventory levels and vacancy rates, there is also very substantial demand for new product at an affordable price point (both for-sale and for-rent). Therefore, these holdings seem poised to benefit from a further recovery in residential construction and ancillary activities. At the end of the quarter, these positions included a diversified set of businesses including homebuilding (Lennar Group and Berkeley Group), timberland ownership and management (Weyerhaeuser, Rayonier, and Catchmark), land development (Five Point Holdings and Status Properties), the ownership and development of rental properties (American Homes 4 Rent, Grainger plc, Essex Property Trust, and Preferred Apartments), as well as other ancillary businesses (Lowe’s and Trinity Place Holdings).

The Fund also had 38% of its capital invested in **Commercial Real Estate** enterprises that are involved in long-term wealth creation. These holdings are largely capitalizing on secular trends within property, including structural changes that are driving more demand for industrial properties and self-storage facilities (Prologis, Segro plc, First Industrial, U-Haul, Big Yellow, and National Storage) as well as the further densification and improvements taking place in select urban corridors (CK Asset Holdings, Derwent London, Wharf Holdings, Henderson Land, and JBG Smith Properties). In Fund Management’s view, each of these enterprises is very well-capitalized, their securities
trade at discounts to private-market values (especially in light of the prevailing interest rate environment), and they seem capable of increasing NAV—primarily by increasing rents, undertaking development and redevelopment activities, as well as by making opportunistic acquisitions.

An additional 18% of the Fund’s capital is invested in Real Estate Services. These businesses are generally less capital-intensive than direct property ownership and as a result have historically offered much higher returns on capital—provided the business has a favorable competitive positioning within the real estate value chain. At the present time, these holdings primarily include franchises involved with asset management (Brookfield Asset Management and Patrizia Immobilien), brokerage and property management (CBRE Group and Savills plc), as well as mortgage and title insurance (FNF Group, Fannie Mae, and Freddie Mac).

The remaining 3% of the Fund’s capital is in Cash & Equivalents, a level that is expected to increase in the first quarter alongside Weyerhaeuser’s anticipated year-end distribution. The Fund also has certain hedges in place, primarily relating to certain foreign currency exposures (Hong Kong Dollar).

The Fund’s allocations across these various business types are outlined in the chart below. In addition, Fund Management reports the Fund’s exposure by geography (North America, Europe, and Asia-Pacific) and strategy (Core/Core-Plus, Value-Added, Opportunistic, and Debt) for comparison with institutional reporting standards for direct real estate allocations.

**ASSET ALLOCATION AS OF DECEMBER 31, 2021**
(allocations subject to change)

### BY BUSINESS TYPE

- Residential: 41.6%
- Commercial: 2.9%
- Real Estate Services: 17.5%
- Cash, Debt & Options: 38.0%

### BY GEOGRAPHY

- North America: 67.1%
- Europe: 19.2%
- Asia: 10.8%

### BY STRATEGY

- Core/Core Plus: 65.2%
- Value Added: 19.4%
- Opportunistic: 12.5%

**FUND COMMENTARY**

In December, Third Avenue’s Real Estate team held its annual strategy update. During the webinar, Fund Management reviewed some of the key trends within the property markets and their implications for the Fund’s core holdings along with Quentin Velleley (Portfolio Manager of the Third Avenue International Real Estate Value Fund). Excerpts from the presentation are included hereafter.

**Private vs. Public Real Estate – Current yield, inflation & arbitrage opportunities**

*Jason Wolf:* There are two prominent themes driving capital into the real estate sector today. The first is the low level of interest rates and real estate’s relative attractiveness. The second is the potential for real estate to act as a vehicle to hedge against inflation.

To add some more context here, interest rates are currently at historically low levels across the spectrum of various fixed income alternatives. At the same time, real estate cap rates (or initial yields) offer historically wide spreads relative to most fixed income alternatives and seem quite attractive on a risk-adjusted basis.

In terms of inflation, the threat has turned into a reality in 2021 and expectations for higher rates are greater today than in years past. Historically, investors have looked to real estate for inflation protection—primarily due to its perceived ability to maintain value as a tangible asset, as well as its performance in the 1970’s, which was a period when Value, Small Cap and Real Estate strategies were some of the top performers.

The combination of offering attractive current yield and inflation protection is resulting in significant capital flowing into the sector. In fact, there are reports that non-traded REITs are raising more than $3 billion a month. In addition, the latest numbers from Preqin suggest that more than $350 billion of capital is available to be deployed from real estate private equity funds.

As a result, we believe these flows have two implications for the Fund. First, there will likely be an increase in the franchise value for the Fund’s holdings that have leading asset management platforms. Companies such as Brookfield Asset Management, Prologis, CBRE Group, and Patrizia are all examples. Second, in order to put all of this capital to work, it seems reasonable to conclude that buying portfolios from listed real estate companies, or even entire companies, may be the path of least resistance for the sponsors of these vehicles. There has been an elevated level of merger and acquisition activity so far in 2021, which is likely to continue into 2022, in our view.

**Commercial Real Estate – Short duration vs. long duration**

*Ryan Dobratz:* Income-producing real estate has historically been a great place to park capital and protect it from inflation over time. Some of the key factors that have made that the case includes commercial real estate offering (i) a competitive current yield, (ii) prospects for that yield to increase at rates of inflation, or better, with higher rents, and (iii) fairly limited variable costs—most of which can be pushed through to tenants. Furthermore, to the extent that replacement costs are rising, new developments will only be justified at higher rental
rates—thus allowing existing owners to command higher rents in competitive sub-markets.

While that may be the case, it is property types with pricing power that should fare the best in an inflationary environment. As far as Third Avenue is concerned, that means those that have (i) shorter-term leases, usually four years or less, and (ii) favorable supply and demand dynamics, which allow property owners to increase rents upon expiration, thus driving cash flows higher even in the face of potentially higher interest rates or cap rates.

To that end, we have deliberately focused the Fund’s exposure to income-producing real estate in property types where we believe there are strong prospects for pricing power over the medium-term. At the present time, these investments account for nearly 40% of the Fund’s capital and mostly include well-capitalized companies involved with (i) industrial real estate which is leased out at rents well below market rates, (ii) self-storage portfolios that have substantial lease-up potential, and (ii) multi-family and single-family rental portfolios that are experiencing significant rent growth alongside rising wages and remote working trends.

We are also of the view that given prevailing valuations in the US REIT space, where the price to sales multiple is now greater than 9.5 times, it is very important to be careful when allocating to property types where the leases are very long duration or the supply-demand dynamics seem less favorable. By our estimates these allocations account for more than 50% of some of the largest US REIT indices and exchange-traded funds.

**International Property – The divergence of returns in global property markets**

*Quentin Velleley:* The recent broad outperformance of US equities compared to international equities is unprecedented going back to the 1950s. Further, the US REIT sector has also dramatically outperformed international public real estate over the past 10 years. In fact, the spread has widened this year with US REITs up by more than 30% so far this year while the international index is up only 3%. As a result, international public real estate is cheap today in both absolute terms and relative to US REITs.

So where are the opportunities in international public real estate? In our view, some of the best values in public real estate companies globally are within Asian property companies that are not in a REIT structure. Generally speaking there has been weak sentiment in Asia regarding the potential for a default by Evergrande causing regional contagion. There have also been draconian travel restrictions, and on average, the Asian economies have had much lower levels of fiscal and monetary stimulus compared to the US and other western economies.

With that being the case, we believe the negative sentiment could turn around in 2022, which would be a positive given the deeply discounted values in Asian property companies. For instance, in Hong Kong the valuation discounts are historically compelling, trading at half of book value, which are too wide given sound underlying real estate fundamentals in our opinion.

Another key opportunity relates to small and mid-cap real estate companies in immature property types that can compound value over long periods of time. These smaller companies operate in property types that will benefit from scale, management teams that are aligned with and focused on creating value for shareholders, and are often the target of privatization bids.

For instance, outside the US, self-storage is very immature, it is undersupplied, consumer awareness is growing, the sector benefits from scale, and development value creation is high. The listed operators, such as Big Yellow in the UK and National Storage in Australia, are uniquely positioned to take advantage of a very long cycle of growth.

In multifamily, markets such as the UK and Ireland have had virtually no amenity rich multifamily real estate until recently. More established residential investors and operators in these markets, such as Grainger in the UK, can leverage their management platforms into this growth opportunity.

**Residential Real Estate – The impact of millennials on single-family housing**

*Ryan Dobratz:* As close followers of the Fund are aware, we have been building out our allocation to the residential markets for the better part of ten years now with the view that (i) the record-levels of excess supply from the early 2000’s would ultimately be absorbed and (ii) that the companies which survived the downturn would ultimately take significant share and be much more profitable in the next phase.

Why do we believe that is the case? Well, supply levels for single-family housing are at decade-low levels. What is really unprecedented though, and somewhat less discussed, is that these supply deficits are occurring alongside the early stages of the millennial cohort—which is the largest generation in history—entering its prime home buying years.

As a result, we expect to see demand for housing this decade approach the same sort of levels that we saw in the 1970’s when the baby-boomer generation moved to the suburbs en masse, which would require significantly higher levels of production. While it will undoubtedly take time to bring on this new supply, and there will inevitably be ups and downs along the way, we are seeing some very encouraging signs—most notably related to building single-family homes for rent or “SFR.”

What was historically a cottage industry, single-family rentals are quickly becoming institutionalized and professionally managed. We can attest from multiple site visits across the country that the single-family-rental product is very popular with consumers given the flexibility and amenities and most SFR owners are fully leased out today. Consequently, the amount of capital targeting build-to-rent strategies is accelerating, and we expect more vehicles to be formed which could increase this product to account for nearly 15% of new construction relative to only around 5% currently.

**Environmental, Social & Governance (“ESG”) Factors – Fossil fuels first, buildings next**

*Quentin Velleley:* In our experience, ESG-based investing means different things to different people. For instance, while decarbonization is just one piece of the ESG puzzle, for many market participants seem to be focused on carbon emissions as
the highest priority issue. This presents significant risk for real estate, given that by some calculations the sector is responsible for 40% of carbon emissions on a global basis. Further, greenhouse gas emission intensity ("GHG") varies dramatically across property types, with data centers, towers, and gaming at the high end and self-storage, multifamily, and logistics at the low end.

What does this mean? For starters, we are concerned that investors may not be adequately factoring in the significant amount of capex that will be required to convert “brown” buildings into “green” buildings. A primer for the US, and other markets, might be the London office market, where studies indicate that 80-90% of the London office market needs significant capex to adhere to new regulations by 2030.

So how do investors navigate the risks and opportunities? For property types like office, we prefer to partner with managers who are active recyclers of capital, with an emphasis on repositioning less efficient buildings and creating value such as Derwent London in the UK. Our focus is also on investing in some of the lower emitting property types such as storage, logistics and multifamily.

Finally, given the evolution in ESG investing, Third Avenue has recently joined forces with Longevity Partners—a global, multi-disciplinary sustainability consultancy—in order to strengthen Third Avenue’s framework for assessing ESG factors within publicly-traded real estate securities. We believe this innovative partnership will improve Third Avenue’s existing underwriting process and provide critical information in a rapidly evolving regulatory environment.

For further details on this strategic relationship, and access to the video replay of the Real Estate Strategy Update including supporting materials and commentary on U-Haul, Five Point, and Lennar Corp., please visit www.thirdave.com.

We thank you for your continued support and look forward to writing to you again next quarter. In the meantime, best wishes for a safe, healthy, and prosperous New Year and please don’t hesitate to contact us with any questions, comments, or ideas at realestate@thirdave.com.

Sincerely,

The Third Avenue Real Estate Value 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.

The information in this portfolio manager letter represents the opinions of the portfolio manager(s) and is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed are those of the portfolio manager(s) and may differ from those of other portfolio managers or of the firm as a whole. Also, please note that any discussion of the Fund’s holdings, the Fund’s performance, and the portfolio manager(s) views are as of December 31, 2021 (except as otherwise stated), and are subject to change without notice. Certain information contained in this letter constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “estimate,” “intend,” “continue” or “believe,” or the negatives thereof (such as “may not,” “should not,” “are not expected to,” etc.) or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any fund may differ materially from those reflected or contemplated in any such forward-looking statement. Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

Date of first use of portfolio manager commentary: January 20, 2022

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 S&P 500 Index - The S&P 500 Index, or Standard & Poor’s 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.
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 1.18%, 1.47% and 1.08%, respectively, as of March 1, 2021. TAM has agreed to waive all accrued entitlements related to the fiscal periods Oct 31, 2017 and Oct 31, 2018, which would have been subject to repayment until Oct 31, 2020 and Oct 31, 2021, respectively.

Distributions and yields are subject to change and are not guaranteed.

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.

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

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:

622 Third Avenue, 32nd floor
New York, New York 10017
E: clientservice@thirdave.com
P: 212.906.1160
www.thirdave.com