



Third Avenue Real Estate Value Fund



MICHAEL H. WINER
PORTFOLIO MANAGER OF THIRD AVENUE
REAL ESTATE VALUE FUND

Dear Fellow Shareholders:

At July 31, 2008, the end of the third fiscal quarter of 2008, the unaudited net asset value attributable to the 85,073,651 shares outstanding of the Third Avenue Real Estate Value Fund (the "Fund") was \$23.67 per share. This compares with an unaudited net asset value of \$27.24 per share at April 30, 2008, and an unaudited net asset value of \$29.93 per share at July 31, 2007, adjusted for subsequent distributions to shareholders. At August 11, 2008, the unaudited net asset value was \$24.35 per share.

QUARTERLY ACTIVITY

The following summarizes the Fund's investment activity during the quarter.

Number of Shares or Principal Amount	New Positions Acquired	Number of Shares	Increases in Existing Positions	Decreases in Existing Positions
\$19,822,829	LandSource Communities Development LLC Senior Term Loan due February 2013 ("LandSource Senior Term Loan")	431,404 shares	British Land Company plc Common Stock ("British Land Common")	Forest City Enterprises, Inc. Preferred Stock 7.375% due 2034 ("Forest City Preferred")
385,141 shares	Savills plc Common Stock ("Savills Common")	389,876 shares	Derwent London plc Common Stock ("Derwent Common")	Acadia Realty Trust Common Stock ("Acadia Common")
		385,986 shares	Hammerson plc Common Stock ("Hammerson Common")	Brookfield Asset Management, Inc. Common Stock ("Brookfield Common")
			Henderson Land Development Co., Ltd. Common Stock ("Henderson Common")	Cousins Properties, Inc. Common Stock ("Cousins Common")
			Tejon Ranch Company Common Stock ("Tejon Common")	First Potomac Realty, Inc. Common Stock ("First Potomac Common")
			Wheelock Properties, Ltd. Common Stock ("Wheelock Common")	One Liberty Properties, Inc. Common Stock ("One Liberty Common")
				PS Business Parks, Inc. Common Stock ("PS Business Common")
				RAIT Financial Trust Common Stock ("RAIT Common")

* 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, 2008: Forest City Enterprises, Inc., 8.85%; Brookfield Asset Management, 8.18%; The St. Joe Company, 7.15%; British Land Company, 5.04%; Hammerson PLC, 4.35%; Wheelock & Co., Ltd., 4.31%; ProLogis, 4.29%; Henderson Land Development Co., Ltd., 4.12%; Derwent London PLC, 3.79%; and Vornado Realty Trust, 3.70%.



Number of Shares	Decreases in Existing Positions (continued)
804,000 shares	Sapporo Holdings, Ltd. Common Stock ("Sapporo Common")
465,418 shares	Vornado Realty Trust Common Stock ("Vornado Common")
	Position Eliminated
282,889 shares	Brookfield Infrastructure Partners, L.P. Common Units ("Brookfield Infrastructure Common")

DISCUSSION OF QUARTERLY ACTIVITY

As noted in last quarter's shareholder letter, the Fund has been evaluating several investments in senior debt instruments that are secured by large land holdings in prime growth areas. Since its inception in 1998, the Fund has made several investments in distressed debt, and Fund management (including this portfolio manager and several other Third Avenue professionals) has years of experience in bankruptcy, workouts and corporate reorganizations. Third Avenue's approach is to invest in the most senior issue of a company's capital structure that will participate in a reorganization. Investing in distressed debt most often means buying debt at a substantial discount to par value with the expectation that the debt will either (a) continue to perform and ultimately be worth par as a result of improved credit or payoff; or (b) default and become the fulcrum security in a reorganization that results in a debt-for-equity exchange.

During the quarter, the Fund initiated a new position in LandSource Senior Term Loan. LandSource owns more than 30,000 acres of land in California, Nevada, Florida, New Jersey, Texas and Arizona. The largest and most valuable land holdings consist of Newhall Ranch and Valencia; two master planned communities in Northern Los Angeles County (roughly 30 miles north of downtown Los Angeles and 30 miles south of Tejon Ranch). Development of the two communities

(originally consisting of 48,000 acres) began in 1960 by Newhall Land and Farming Company. Presently, there are approximately 172,000 residents in the two communities. There are approximately 23,000 residential lots remaining, of which over 20,000 have development entitlements. LandSource, which was owned by LNR Property Corp. ("LNR") and Lennar Homes ("Lennar"), acquired Newhall Land and Farming in 2004 for \$1 billion. In 2006, LandSource admitted a new partner that contributed several land developments, and LandSource simultaneously obtained new debt totaling \$1.35 billion (including the Senior Term Loan and a Junior Term Loan) secured by assets appraised at \$2.6 billion. LNR and Lennar reduced their ownership in LandSource and received a combined dividend of \$1.1 billion.

LandSource's business plan is primarily to develop residential lots for sale to production homebuilders (Lennar was the primary homebuilder). As the U.S. housing market entered its severe downturn, lot sales to homebuilders fell off dramatically, causing LandSource to default on its debt obligations and ultimately file Chapter 11 Bankruptcy. The LandSource Senior Term Loan has an outstanding balance of approximately \$1 billion, and is secured by a first lien on all of the company's real estate (which was recently appraised at \$1.7 billion – a 35% reduction from its original valuation in 2006). The Fund acquired the LandSource Senior Term Loan at 70% of face amount, which equates to approximately 41% of the recent appraised value. While the current market for improved residential lots in Southern California is almost nonexistent, LandSource clearly owns some of the most prime, entitled land in the U.S. The Senior Term Loan appears to be fully covered based on asset value, and any plan of reorganization in Chapter 11 will have to either reinstate, payoff or convert the Senior Term Loan to equity.

The Fund also initiated a position in Savills Common. Savills is a London-based, global provider of real estate advisory and facilities management services with a dominant position in the U.K. and expanding presence



in Europe, Asia and the U.S. Savills has been in business since 1855 and currently has over 180 offices worldwide. About half of the company's revenue comes from property transactions including commercial property sales and leasing and residential sales. The U.K. accounts for approximately 65% of revenues and 80% of operating profits. Transaction volumes in the U.K. residential and commercial property markets have been impacted by the credit crisis, and the near-term outlook appears very weak. However, Savills has a very strong financial position (cash exceeds debt), has historically been one of the best-managed real estate service companies in the world and has an excellent reputation among property investors. The Fund began acquiring Savills Common at roughly eight times five-year average earnings per share and less than five times peak earnings per share. Fund Management believes that Savills could be a highly-coveted acquisition candidate for global competitors seeking to expand their footprint in the U.K.

The Fund took advantage of depressed market prices by increasing its positions in several U.K. and Hong Kong holdings, including British Land Common, Derwent Common, Hammerson Common, Henderson Common and Wheelock Common. In order to provide the necessary funds to take advantage of buying opportunities in U.K. and Hong Kong holdings, the Fund reduced its holdings in Brookfield Common and several U.S. REIT stocks, including Acadia Common, First Potomac Common, One Liberty Common, ProLogis Common, PS Business Common, RAIT Common and Vornado Common. The securities sales were primarily done for portfolio management reasons, not because they were overpriced or suffered a permanent impairment. Fund management is continuously focused on holding a portfolio of securities that should provide

the greatest potential for long-term capital appreciation, while attempting to minimize taxable gains. Unfortunately, when the Fund is not growing through new subscriptions, some portfolio turnover becomes necessary to take advantage of bargain prices. Fund management will make every reasonable effort to minimize taxable gains prior to the Fund's fiscal year-end without sacrificing the integrity of the portfolio.

SOLID FUNDAMENTALS NOT REFLECTED IN MARKET PRICES

The vast majority of the Fund's portfolio companies continue to report solid operating performance despite the doom and gloom reported daily in the mass media. While their stock prices do not reflect it, fundamentally, the prospects for long-term growth in net asset value appear to be very good. The Fund's portfolio companies are not immune to global economic woes including the credit crisis, high commodities prices and inflation. However, they have maintained very sound financial positions while owning high-quality income-producing properties in high-barrier-to-entry markets such as New York, Washington, D.C., London, Hong Kong and Tokyo.

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Fund Management is disappointed with the Fund's recent absolute performance, but we remain focused on long-term fundamentals, and on our view that the portfolio contains an abundance of value and future growth that the market currently fails to recognize. Real estate does go through up and down cycles. The down cycles can be especially painful for those invested with high leverage, or in properties or geographic areas that are more susceptible to overbuilding or economic turmoil. Fund Management has always stressed the importance of investing only in the securities of well-financed companies. The benefits of this fundamental approach are not always apparent during periods of economic



growth and investor exuberance (bull markets); but in periods of economic stress, the dangers of being poorly financed will no doubt be revealed, as will the resilience of the well-financed companies.

In bear markets, securities that were bargains become even bigger bargains – unless, of course, the issuers suffer significant, unrecoverable losses (as opposed to mark-to-market losses). Clearly, many companies in the financial sector have suffered permanent losses, especially those companies that held residential mortgages or their derivative securities or were highly leveraged with short-term debt and were forced to sell assets to meet debt maturities or margin calls. A few troubled sectors that have suffered real (unrecoverable) losses include U.S. homebuilders, residential mortgage REITs, sub-prime mortgage lenders, commercial banks, investment banks and financial guarantee insurance companies. With a few exceptions, the Fund has generally avoided investments in these sectors. In addition, the Fund tends to avoid investments in companies that are dependent upon continuous access to capital (debt and/or equity) for their business model to work.

Unfortunately, over the past twelve months, due to the well-publicized credit crisis, nearly all financial sector companies have been painted with the same brush – regardless of their financial strength, asset quality or prospects for long-term wealth creation. It is safe to say that most market participants are sellers of financial-sector stocks and many participants are, indeed, forced sellers. Market participants are forced to sell if they:

- 1) are strictly outlook conscious, rather than price conscious, in the securities they choose to buy or sell;
- 2) believe that the macro outlook for the economy and for markets is more important than fundamental corporate details;
- 3) know little, or nothing, about the companies or securities in which they are invested;
- 4) are invested on margin or otherwise heavily indebted;
- 5) believe their livelihood depends on the near-term performance of stock market prices;
- 6) need to raise cash in the near-term to meet redemptions.

To illustrate the disparity between company fundamentals and market prices for their common stocks, the following summarizes the Fund's largest holding in each of its five major geographic regions. These five holdings represent approximately 29% of the Fund's total assets.

Forest City Enterprises—United States

Forest City is one of the premier U.S. developers of urban, mixed-use developments. Over the past ten years it has compounded book value per share by 15% per year using its value creation approach to real estate. In recent years, the company has completed some of the most valuable developments in its long history (The New York Times Building and Westfield San Francisco Centre) and taken advantage of rich pricing to sell tertiary properties. More than 75% of the company's retail, office, and multifamily assets are strategically located in New York City, Boston, Washington, D.C., Denver, California, and Chicago. This diversified collection of assets is more than 92% occupied and provides recurring free cash flow for reinvestment into new, value-creating developments. Since Forest City is not a real estate investment trust, it is able to retain and reinvest its earnings. The recent market price of Forest City Common essentially implies no value to the company's \$1.8 billion (book value) development pipeline (approximately \$18 per share). Current economic conditions will probably cause Forest City to delay the timing of certain projects and possibly even walk away from certain developments in its "shadow" pipeline. In addition, rising construction costs and more conservative "exit" financing may lead to less attractive development margins. Nonetheless, over 90% of Forest City's developments are located in its strategic, high-barrier-to-entry markets, where supply remains constrained and



additional building will be limited, given the restrictive lending environment. Forest City's strong balance sheet and its development know-how should enable it to work through the difficult building process, obtain the necessary financing and secure tenants for its irreplaceable locations. As in the past, the development pipeline ultimately translates into growth in shareholder value.

Brookfield Asset Management—Canada

The bulk of Brookfield's assets consist of world class office buildings in key international cities (New York, Toronto, London, Sydney, Washington, D.C.) and an irreplaceable portfolio of hydroelectric power generating plants that are concentrated in the Northeastern portion of North America. Both asset types provide very stable, long-life cash flows that can be leveraged with non-recourse debt in order to enhance the return on equity capital (average lease term in its office portfolio is 10 years and the average contract in its power generation contracts is close to 11 years). The cash flows from these assets have increased considerably in recent years, allowing the company to increase book value per share by more than 30% per year, over the past five years, while remaining disciplined and only placing modest amounts of debt on its assets (typically 50% loan-to-value) while retaining a significant amount of its cash flow for future opportunities. As a result, the company currently has more than \$1.5 billion of cash and is in a position to capitalize on the turbulent markets by: 1) buying high-quality, long-life assets at a discount to replacement cost through public and private market transactions; and 2) substantially increasing the size of its asset management business, by attracting institutional capital given its long-term results and ability to co-invest capital. Brookfield should be able to achieve its long-term objective of increasing cash flow per share and, thus, net asset value, by 15% per year.

Mitsubishi Estate—Japan

Mitsubishi owns one of the highest quality real estate portfolios on a global basis. Its key assets include 31 office properties in central Tokyo's most exclusive sub-market (Marunouchi), as well as office properties in both mid-town Manhattan and central London. The portfolio is more than 98% leased and generates in excess of \$1.6 billion of recurring annual cash flow. As a real estate operating company with low debt levels, Mitsubishi retains more than 85% of its cash flow and profitably reinvests that capital into new developments, redevelopments, and acquisitions. The company plans to spend more than \$4 billion over the next eight years redeveloping multiple projects in Marunouchi. Based on recent redevelopments, Fund management estimates that Mitsubishi has the potential to generate \$4 to \$5 of equity value for every \$1 that it invests in these redevelopment projects. However, the market seems to give no credit for the significant amount of value creation that is taking place. Mitsubishi Common trades at a substantial discount to NAV, which may be attributable to negative sentiment surrounding Japanese property stocks, given a handful of smaller developers that overextended their balance sheets. This is clearly not the case with Mitsubishi, which seems to have a fortress like balance sheet and ability to thrive in any environment.

Henderson Land—Hong Kong

Henderson owns more than 13 million square feet of investment grade property in Hong Kong and Mainland China. The company's portfolio is more than 94% leased and generates significant recurring rental income, which is further supplemented by the dividend it receives from its 40% stake in Hong Kong China & Gas and proceeds from residential property sales. As a real estate operating company, Henderson retains about 75% of its free cash flow and reinvests in what is arguably one of the most attractive development pipelines in Asia. For instance, in Hong Kong, Henderson currently has 8.1 million square feet of property held for or under development and more



than 8,000 acres of agricultural land for future developments. This is the largest land bank of any Hong Kong property developer. In Mainland China, Henderson has 14 million square feet of developments that are expected to be completed by 2010 and an additional 9,000 acres of land for future developments. Despite the strong underlying fundamentals in its property portfolio and profitable development activity, Henderson Common has recently traded at prices representing a substantial discount to conservative estimates of net asset value. The continued austerity measures implemented by the Chinese government to “cool down” the Mainland property market have undoubtedly impacted a large number of the local developers, especially those who have not been able to obtain financing or have been forced to sell into a weak market. However, Henderson has nearly \$350 million of recurring cash flow that it can use to self-finance its developments. In addition, Henderson’s low debt levels give it the ability to hold inventory until the market returns and have allowed the company to opportunistically add Mainland property assets during the recent pullback.

British Land—United Kingdom

British Land owns a high quality portfolio of retail and office assets that are leased to credit worthy tenants on a long-term basis. The retail assets are geographically dispersed in the U.K., where development entitlements are difficult to obtain. The office portfolio is concentrated in Central London, a high-barrier-to-entry market. The portfolio is 98% leased and provides steady cash flows to service its debt, corporate overhead and dividends (approximately 5% current yield). The remaining cash is reinvested into the company’s modest development pipeline, which should provide future net asset value growth. British Land’s strong financial position should enable it to make opportunistic acquisitions of assets, developments, and even other publicly-traded companies. The current credit

environment has impacted various markets across the globe, but U.K. property stocks have been particularly affected. The crisis has created some apparent bargains, especially considering that the underlying property cash flows for high-quality properties should not be impaired. For instance, British Land’s portfolio is leased primarily to blue-chip tenants at an average lease term of 16 years and the company has locked in 100% of its debt at an average rate of 5.3%, for 14 years. Despite its solid fundamentals and increasing cash flow, British Land Common is trading at a substantial discount to appraised value.

The Fund’s holdings have certainly been impacted to some extent by macro-economic factors and, to a greater extent, indiscriminate selling that has very little to do with the underlying company-specific fundamentals. Given the current market prices, Fund management believes the portfolio is valued at levels that represent exceptional discounts to private market values. There are also substantial attractive buying opportunities for additional securities that meet our investment criteria.

The Fund is currently open to new and existing investors. We hope you will agree that this is an opportune time to consider increasing your investment in the Fund.

I look forward to writing to you again when we publish our Annual Report for the fiscal year ending October 31, 2008.

Sincerely,

Michael H. Winer
Portfolio Manager
Third Avenue Real Estate Value Fund