

Dear Fellow Shareholders,

Here is a review of our strategy, our 2015 results and our outlook.

This is our strategy:

We acquire, own and operate industrial real estate in six major coastal U.S. markets: Los Angeles, Northern New Jersey/New York City, San Francisco Bay Area, Seattle, Miami and Washington, D.C./Baltimore. Exclusively. We believe that over time these six markets have the best potential for superior returns given favorable supply and demand factors. Supply of newly developed industrial product will be limited due to physical and regulatory constraints; in some of our submarkets the supply of industrial product is shrinking. Future demand will result from large and growing population densities and proximity to high volume distribution points. Further, these locations may provide the opportunity for higher and better use over time.

We invest in functional and flexible industrial real estate in infill locations within our six markets. We acquire, own and operate product that satisfies customer demand within a submarket: warehouse/distribution, flex (including light industrial and R&D) and transshipment (primarily truck terminals). As of year-end 2015 92% of our investments are warehouse/distribution, 6% are flex and 2% are transshipment. Further we invest in improved land parcels in very infill locations that we lease as surface storage and retain the optionality of future redevelopment to higher and better use.

Our six-market strategy provides a margin of safety. We acquire properties at discounts to replacement cost. We may renovate, redevelop or expand properties, but we do no ground up green-field development or raw land acquisition. We have no complex joint ventures.

We acquire both value-add and stabilized properties; about half of each so far. We retain the best local third-party firms to help us efficiently manage our space. Where we believe it is the best execution we manage our properties directly.

We sell properties when we believe the prospective total return from a property is particularly low relative to its market value or the market value is significantly greater than the property's estimated replacement cost. Capital from such sales is recycled into properties that are expected to provide better prospective returns or is returned to shareholders.

These are our 2015 results:

We acquired 14 properties containing 29 buildings for a purchase price totaling approximately \$268 million, up 14% from 2014, adding 2.3 million square feet to our portfolio. While this was a record year for us, we originally expected to acquire even more. We grew cautious in the second half of the year given a less favorable mix of real estate pricing, macroeconomic and capital market conditions.

We sold two properties for approximately \$25 million. We have sold four properties since our IPO for a total of approximately \$61 million generating a cumulative unleveraged IRR of 15.8%

We commenced the redevelopment of our South Main property in Carson, California. We will invest approximately \$16 million in a new 210,000 square foot industrial building and renovation of a 34,000 square foot office building for a total expected investment of \$38 million. The property is 73.8% preleased.

Our value-add acquisitions generally contain vacant space or space with near term lease expirations. On average our acquisitions have been 81.5% leased. Notwithstanding, we ended the year 91.5% leased, 94.4% in our same store pool, delivering on our investment strategy by stabilizing 33 of our 48 value-add properties.

Our same store cash basis net operating income grew by 3.1%. We produced EPS of \$0.26 up 13% compared to \$0.23 in 2014. Our 2015 Funds from Operations was \$0.84 per share down 2% compared to \$0.86 in 2014 largely as a result of raising \$183 million of equity in December 2014 in anticipation of a significant acquisition. We operated with excess liquidity and an undrawn credit facility throughout the year.

We raised \$3 million of common equity via our ATM program and did not repurchase any common shares pursuant to our share buyback program in 2015.

Our total shareholder return in 2015 was 13.1%; significantly exceeding the total return of the indices of our peers and all REITs. In keeping with our commitment to fellow shareholders to measure our performance over rolling three-year periods we received incentive compensation for the first time since our IPO. Our total shareholder return over the preceding three years of 60% exceeded the 37% of the Morgan Stanley REIT index and the 34% of industrial REITs. We are fully aligned with our public shareholders and committed to creating superior long-term value for all of us.

This is our outlook:

Current operating conditions in our six markets are excellent. We believe that on average, the rental rates we are likely to achieve on new or renewed leases for our 2016 expirations will be at or above the rates currently being paid for the same space. However, new speculative development continues. This new development will slow potential rent growth from what it would be without such new development. Macroeconomic conditions are less favorable than a year ago: leverage levels in many countries have increased significantly and the world economy appears to be slowing.

We see attractive acquisition opportunities. Nevertheless, our acquisition volume for 2016 will be dependent on both the quality and pricing of the opportunity set and the price of our stock relative to NAV. Those conditions, not knowable in advance, will determine if we acquire more or less than we did in 2015. We entered 2016 with \$22 million of cash and an undrawn credit line; well positioned for an environment of difficult equity capital market conditions.

Over the intermediate term of the next four to five years, we expect to grow our portfolio to approximately \$3 billion of assets up from approximately \$1.2 billion today. This will utilize approximately \$2 billion of equity up from approximately \$1 billion today. We expect this to optimize our operating efficiency, increase our shareholder liquidity and maintain our recently acquired investment grade credit rating. We remain mindful, however, that it is per share, rather than aggregate, results that matter.

We believe in the long-term operating prospects of our functional, extremely infill coastal assets. We believe in sound balance sheet management. We believe in the benefits of our market-leading corporate governance and exceptionally aligned executive management compensation. As a result, we are enthusiastic about the future and our ability to produce superior results for our shareholders over time.

As we pursue Terreno's goals, we thank our Board of Directors for their advice and counsel and our fellow shareholders for their support.

Sincerely,



W. Blake Baird

Chairman & Chief Executive Officer



Michael A. Coke

President

February 29, 2016