March 1, 2018

Dear Fellow Shareholders,

Here is a review of our strategy, our 2017 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. 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 the 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 2017 94% of our investments are warehouse/distribution, 5% are flex and 1% are transshipment. Further we invest in improved land parcels in very infill locations that we lease as surface storage and retain the optionality of 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 greenfield development or raw land acquisition. We have no complex joint ventures.

We acquire both value-add and stabilized properties; about 60% of our acquisitions so far have been value-add. 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 2017 results

Our same store cash basis net operating income grew by 16.5% and our cash rents on new and renewed leases commencing in 2017 grew 10.8% demonstrating what the right assets in very infill locations can produce. Our value-add acquisitions generally contain vacant space or space with near-term lease expirations. On average our acquisitions since our IPO have been 83.3% leased. Notwithstanding, we ended the year 97.3% leased, and 97.5% leased in our same store pool, delivering on our investment strategy by stabilizing 58 value-add properties.

We acquired 23 properties containing 35 buildings for a purchase price totaling approximately $293 million. This added 1.7 million square feet and three improved land parcels to our portfolio. While we were increasingly enthusiastic during the year about market conditions and our well positioned balance sheet, demand for our type of real estate was high, making sensible acquisitions difficult.

We sold four properties for approximately $77 million. We have sold 11 properties since our IPO for a total of approximately $160 million generating a cumulative unleveraged IRR of 14.2%.

We earned EPS of $0.95 up from $0.26 in 2016. Our 2017 Funds from Operations was $1.09 per share, up a strong 26.7% compared to $0.86 per share in 2016. Further we operated with excess liquidity and an undrawn credit facility for most of the year.

We issued $255 million of common equity via our ATM program at an average price of $32.48 per share and did not repurchase any common shares pursuant to our share buyback program in 2017. We sold $100 million unsecured senior debt with a seven-year term and a 3.75% fixed interest rate. We redeemed our 7.75% Series A preferred stock.

Our total shareholder return in 2017 was 26.2%. In keeping with our commitment to fellow shareholders to measure our performance over rolling three-year periods we received a maximum payout under our total shareholder return-based incentive compensation plan for the third consecutive year—the third time since our 2010 IPO. Our total shareholder return over the preceding three years of 84% significantly exceeded the 16% total return of the Morgan Stanley REIT index and the 61% total return 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, the best we have seen since our IPO. We believe that on average, the rental rates we are likely to achieve on new or renewed leases for our 2018 expirations will be 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, while uncertain and impossible to accurately predict, appear favorable to us.

We see attractive acquisition opportunities. Nevertheless, our acquisition volume 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 our results. We will continue to sell assets and redeploy the capital to enhance NAV or return the capital to shareholders. We entered 2018 with our balance sheet well positioned for growth.

Over the next three to four years, we expect to grow our portfolio to approximately $3 billion of assets up from approximately $2.4 billion today. This will utilize approximately $2 billion of equity up from approximately $1.9 billion today. We expect this to optimize our operating efficiency, increase our shareholder liquidity and maintain our 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.

At our May 2018 shareholder meeting we expect to welcome Gabriella Parcella to our Board of Directors. At that time, we will also recognize the retirement of one of our founding Directors, Peter Merlone. We are grateful to him for his insights and independent thinking. As we pursue Terreno's goals, we thank our Board of Directors for their counsel and our fellow shareholders for their support.

Sincerely,

W. Blake Baird
Chairman & Chief Executive Officer

Michael A. Coke
President