

Dear Fellow Shareholders,

It is with enthusiasm, optimism and thankfulness that we write the first letter to shareholders of Terreno Realty Corporation. 2010 was a seminal year as we completed our initial public offering in February and began building our company as a significant acquirer, owner and operator of industrial real estate in what we believe are the six best U.S. markets.

Here is our strategy:

We invest exclusively in a highly select group of six U.S. coastal target markets: Los Angeles, Northern New Jersey/New York City, San Francisco Bay Area, Seattle, Miami and Washington, D.C./Baltimore.

We believe that over time the supply of newly developed industrial product will be limited in these markets because of physical and regulatory constraints to new development. When combined with strong demand generators such as high and growing population densities and proximity to high volume distribution points, these markets have the best potential for superior returns.

We invest in functional and flexible industrial real estate generally in infill locations within these six markets. We acquire, own and operate the product that works for customer demand within a submarket: warehouse/distribution, flex (including light industrial and R&D) and trans-shipment. The majority of our investments to date have been warehouse/distribution facilities. We seek to acquire properties at discounts to replacement cost. That is the most important valuation metric in our view, as it provides a margin of investment safety. We do not undertake ground up development or raw land acquisition.

We retain the best local third party firms to help us broadly market and efficiently manage our space. Where we believe it is the best execution, we can – and do – manage our properties directly.

Here are our results and outlook:

We made significant progress on deploying our initial equity capital in 2010. We completed 12 acquisitions in five of our six target markets for \$134 million. This initial portfolio comprises 33 buildings containing 2.4 million square feet. Seven of these initial properties were 100% leased at acquisition; overall, the portfolio is approximately 71% leased to 44 tenants.

We achieved our pricing goals in our 2010 acquisitions. The weighted average stabilized cap rate on our initial portfolio was 8.2% and the estimated discount to replacement cost was 28%. We believe these prices were more than 25% below peak valuations of 2007.

Our investment pace was slower than the six-to-twelve months expectation we had at our IPO. Nevertheless, we are pleased with the quality of the real estate we acquired. We were highly selective and determined in completing our 12 acquisitions. We issued more than 80 letters of intent on target acquisitions (about two per week), over 60% of which were off market. The results placed us second among the eight public industrial REITs for total industrial acquisition volume measured in dollars completed in 2010, and among the largest buyers of industrial real estate overall.

We financed our acquisitions with cash proceeds from our IPO and assumed mortgages totaling \$17 million on two of the properties. We ended the year with approximately \$50 million of IPO equity proceeds to invest. Our Debt to Total Market Capitalization was 9.6% at year end.

We are circumspect about the near term prospects for industrial real estate. 2010 saw the industrial real estate availability rate reach 14% in the U.S., the highest level since accurate data series began in 1990. 2008-2009 witnessed the largest decline in net demand for industrial real estate in the last 20 years. Nevertheless, most of our markets are now showing positive absorption and rents overall have stopped falling, and in some cases have begun to rise modestly. While we believe it will take some time for the recovery to fully take hold, we are increasingly optimistic within our markets on acquisition and leasing opportunities.

We remain focused in this environment on long term shareholder value creation. Importantly, we have the capital and balance sheet capacity to take advantage of acquisition opportunities. In addition to our remaining IPO proceeds, we closed a senior revolving credit facility for \$50 million in March, and in December expanded the facility to \$80 million with lenders led by KeyBank. At this writing, we have no borrowings outstanding on the facility.

Sincerely,



W. Blake Baird
Chairman and Chief Executive Officer

February 28, 2011

Here is why we are enthusiastic, optimistic and thankful:

Enthusiastic because we believe we have assembled an excellent team of real estate professionals who can execute our business strategy with skill and integrity and are fun with which to work. Enthusiastic because we believe our market-leading corporate governance and exceptionally aligned executive management compensation program will be rewarded in the marketplace over time as our investment and operating results mature.

Optimistic because we believe that our investment strategy is the right one to generate superior long term results for investors and we can execute it unburdened by legacy balance sheet or portfolio constraints.

Thankful because four talented outside directors agreed to join our Board and share their judgment. Thankful because our IPO underwriting group, led by Goldman Sachs, helped complete our offering with intelligence, integrity and exceptional determination. And finally, thankful because you, our shareholders, believed in our vision enough to invest alongside us in creating Terreno Realty Corporation.



Michael A. Coke
President and Chief Financial Officer