

February 26, 2013

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**Dear Fellow Shareholders,**

Here is a review of our strategy, our 2012 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. 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 trans-shipment (primarily truck terminals). Thus far, 88% of our investments have been warehouse/distribution, 9% have been flex and 3% have been trans-shipment.

Our six-market strategy provides a margin of safety. We acquire properties at discounts to replacement cost. We do no ground up 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 broadly market and efficiently manage our space. Where we believe it is the best execution, we manage our properties directly.

We sell properties from time to time 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 2012 results**

We acquired 13 properties containing 22 buildings for a purchase price of approximately \$181 million, up over 50% from 2011, adding 1.8 million square feet to our portfolio.

We recycled \$17 million through the sale of a trans-shipment facility in LA that we purchased in 2010, generating a \$4.0 million gain and 21% unleveraged IRR.

We now own 36 properties comprising 67 buildings and 5.1 million square feet that we purchased for approximately \$422 million. Since our IPO, we have been the leading buyer of industrial real estate among public industrial REIT peers, and the 10th-largest acquirer overall, based on acquisition volume in our six markets.

Our value-add acquisitions generally contain vacant space or space with near-term expirations. On average, our acquisitions have been 77% leased. Notwithstanding, we ended the year 93.3% leased, delivering on our investment strategy by stabilizing 11 of our 19 value-add properties.

Our same store cash basis net operating income grew by 11.9%. We produced EPS of \$0.19 compared to a loss of \$(0.41) in 2011 and Funds From Operations of \$0.57 per share compared to \$0.12 in 2011 after recognizing a disappointing loss of \$1.2 million in 2012 related to a large tenant in our Miami market, upon whom we filed an eviction proceeding in January 2013.

Despite this progress, and while our total shareholder return in 2012 was 5.8%, our stock price underperformed our peers and the REIT universe in 2010, 2011 and 2012. In keeping with our commitment to fellow shareholders, we did not receive any incentive compensation in those years. While not happy with this result, we are fully aligned with our public shareholders and committed to creating superior long-term value for all of us.

**This is our outlook**

We believe that industrial rents have stopped falling in our markets, and in most cases are rising modestly. Nevertheless, with national availability ending 2012 near 13% and new speculative development beginning in some markets, it will take time before most markets exhibit significant rent growth.

We see a growing set of acquisition opportunities. Subsequent to year-end we raised approximately \$95 million of new common equity to pursue those opportunities, increase our liquidity and maintain prudent leverage.

In the intermediate term we expect to grow our portfolio to optimize our operating efficiency, increase our shareholder liquidity and position us to achieve an investment grade credit rating to broaden our access to capital. 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, 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 evidence of this confidence, our senior management team and Board of Directors purchased 90,325 additional common shares as part of our recent equity offering in February 2013 and 93,000 shares in our January 2012 offering.

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 & Chief Financial Officer