March 19, 2012

Dear Fellow Shareholders,

In 2011 Terreno Realty Corporation completed its first full year of operations as a publicly traded company. Here is a review of our strategy, our 2011 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 75% of our investments have been warehouse/distribution, 17% have been trans-shipment and 8% have been flex.

Our six-market investment 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 – about 20% of the portfolio today.

These are our 2011 results

We acquired 12 properties containing 14 buildings for a purchase price of approximately $118.7 million adding 1.1 million square feet to our portfolio, completing the deployment of our February 2010 IPO proceeds.

We now own 24 properties comprising 47 buildings and 3.4 million square feet that we purchased for approximately $253 million. We sourced over half of these in transactions that were not broadly marketed. The location and functionality of our properties fit our strategy well.

Our value-add acquisitions generally contain vacant space or space with near term expirations. As such we began 2011 at 70.6% occupancy. We ended the year at 92.5%, delivering on our investment strategy by stabilizing nine of our twelve value-add properties.

Despite this progress our stock price underperformed our peers and the REIT universe in 2010 and 2011. 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 some cases are rising modestly. Nevertheless, with national availability ending 2011 at above 13% it will take time before the broader markets exhibit significant rent growth. We see a growing set of acquisition opportunities. Subsequent to year-end we raised approximately $54 million of new common equity to pursue those opportunities, increase our liquidity and maintain prudent leverage.

Terreno owned $250 million in property assets at year-end. Assuming investment opportunities remain attractive, we intend to grow our assets to between $700 million and $1 billion in the intermediate term. That will optimize our operating efficiency, increase our shareholder liquidity and position us to achieve an investment grade credit rating to broaden our debt financing options.

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 93,000 additional common shares as part of our most recent equity 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