

# Terreno Realty Corporation

**Q1 2013**



# Forward Looking Statements

This presentation contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact are forward-looking statements and, in some cases, can be identified by the use of the words “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “might”, “plan”, “project”, “result”, “seek”, “should”, “will” and similar expressions. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected.

We caution investors that forward-looking statements are based on management's beliefs and on assumptions made by, and information currently available to, management. Factors that may cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited to: (i) our ability to identify and acquire industrial properties on terms favorable to us; (ii) general volatility of the capital markets; (iii) adverse economic or real estate conditions or developments in the industrial real estate sector and/or in the markets in which we acquire properties; (iv) our dependence on key personnel and our reliance on third parties to property manage the majority of our industrial properties; (v) our dependence upon tenants; (vi) our inability to comply with the laws, rules and regulations applicable to companies, and in particular, public companies; (vii) our ability to manage our growth effectively; (viii) tenant bankruptcies and defaults on or non-renewal of leases by tenants; (ix) decreased rental rates or increased vacancy rates; (x) increased interest rates and operating costs; (xi) declining real estate valuations and impairment charges; (xii) our expected leverage, our failure to obtain necessary outside financing, and future debt service obligations; (xiii) our ability to make distributions to our stockholders; (xiv) our failure to successfully hedge against interest rate increases; (xv) our failure to successfully operate acquired properties; (xvi) our failure to qualify or maintain our status as a real estate investment trust (“REIT”), and possible adverse changes to tax laws; (xvii) uninsured or underinsured losses relating to our properties; (xviii) environmental uncertainties and risks related to natural disasters; (xix) financial market fluctuations; and (xx) changes in real estate and zoning laws and increases in real property tax rates. Other factors that could materially affect results can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, including those set forth under the sections titled “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations,” and in our other public filings.

We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

# Recent Highlights

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- Quarter end occupancy of 93.3%, unchanged from 93.3% at Q4 2012 and increased from 92.9% at March 31, 2012
- Closed \$11.5 million of acquisitions comprising approximately 118,000 square feet in Q1. Subsequent to March 31, 2013, closed \$14.4 of acquisitions comprising approximately 120,000 square feet
- As of May 8, 2013, \$43.6 million of acquisitions were under contract and \$56.1 million were under letter of intent <sup>(1)</sup>
- Issued 5.75mm shares of common stock at a price per share of \$16.60, generating approximately \$90.8 million in net proceeds
- Added a new five-year \$50 million term loan which that bears interest at an annual rate of LIBOR plus 1.65% to 2.65% depending on leverage
- Extended \$100 million revolving credit facility maturity to January 2016 and reduced the annual interest rate by 85 basis points

## Selected Recent Acquisitions

<b>Property Name:</b>	107 <sup>th</sup> Avenue	SeaTac 8 <sup>th</sup> Ave	240 Littlefield
<b>Location:</b>	Medley, FL	Burien, WA	South San Francisco, CA
<b>Acquisition Date:</b>	March 6, 2013	March 21, 2013	April 3, 2013
<b>Number of Buildings:</b>	1	1	1
<b>Square Feet:</b>	49,284	68,583	67,800
<b>Purchase Price (\$000):</b>	\$5,095	\$6,450	\$8,400
<b>Estimated Stabilized Cap Rate<sup>(2)</sup>:</b>	6.3%	5.6%	6.4%

(1) There is no assurance that we will acquire the properties under contract or letter of intent because the proposed acquisitions are subject to the completion of satisfactory due diligence and closing conditions

3 (2) Estimated stabilized cap rates are calculated as estimated annualized cash basis net operating income stabilized to market occupancy (generally 95%) divided by total acquisition cost



# Investment Strategy

## Unique and Highly Selective Market Approach

- Acquire, own and operate industrial real estate exclusively in 6 major coastal U.S. markets
  - Mix of core and value-add investments
  - No ground up development
  - No complex joint ventures
- Superior market fundamentals, including lower availability and higher rent growth
  - Strong demand generators (high population densities, near high volume distribution points)
  - Physical and regulatory constraints to new supply

## Focus on Functional Assets in Infill Locations

- Broad product opportunity set<sup>(1)</sup>
  - Warehouse / distribution (87.9%)
  - Flex (including light industrial and R&D) (9.9%)
  - Trans-shipment (2.2%)
- Functional and flexible assets
  - Generally suitable for multiple tenants
  - Close proximity to transportation infrastructure
  - Caters to sub-market tenant demands
- Multiple value creation opportunities
  - Emphasis on discount to replacement cost to provide for margin of safety
  - Opportunity for higher and better use over time

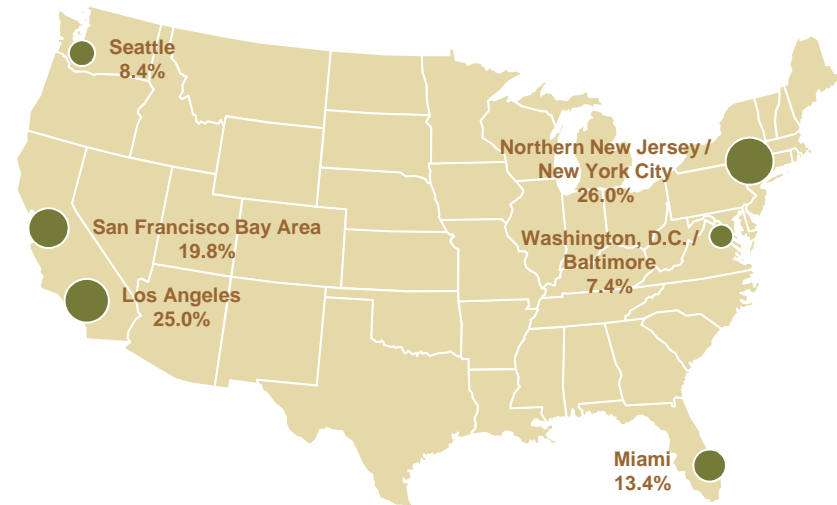
(1) Reflects Terreno portfolio composition at May 8, 2013

# Current Portfolio Overview

## Key Metrics

<b>Square Feet</b>	5.3 million
<b>Number of Buildings</b>	71
<b>Total Purchase Price, net of sales</b>	\$448 million <sup>(2)</sup>
<b>Average Acquisition Size</b>	\$11 million
<b>Weighted Average Occupancy at Acquisition</b>	76.8%
<b>Occupancy as of March 31, 2013<sup>(3)</sup></b>	93.3%

## Current Portfolio by Geography <sup>(1)</sup>



Note: Reflects Terreno portfolio composition at May 8, 2013

- (1) Based on purchase price by market
- (2) Including approximately \$53.6 million of mortgage debt assumed
- (3) Excludes acquisitions after March 31, 2013

# Selected Examples of Value Creation

- As well as the acquisition and operation of core properties, Terreno has successfully stabilized 12 of 21 value-added investments to date. Since its IPO, approximately 49% of Terreno's acquisitions have been value-add investments

Strategy	Examples
<b>Acquisition and Repositioning of Vacant Properties</b>	<ul style="list-style-type: none"> <li>620 Division: At the time the contract was signed the Elizabeth, NJ property was expected to be approximately 20% leased to the seller. A tenant was identified by Terreno during due diligence and the property was 100% leased by the time the transaction was closed</li> <li>630 Glasgow: The Inglewood, CA property was purchased vacant and was subsequently 100% leased to one tenant within one week of transaction close</li> <li>NW 60<sup>th</sup> Avenue: A vacant 195,000 square foot former manufacturing facility in Miami was acquired during foreclosure proceedings. Terreno renovated the property including adding 20 dock-high loading positions, reconfiguring the entrance, offices and truck court and executed a long term lease with a logistics company</li> </ul>
<b>Near Term Lease Expirations</b>	<ul style="list-style-type: none"> <li>Kent 188: Property in Kent, WA was acquired in December 2010 at an above market cap rate and significant discount to replacement cost due to a near-term lease expiring in February 2012. In December 2011, Terreno successfully executed an early renewal of the lease for 100% of the rentable square feet to a subsidiary of International Paper</li> </ul>
<b>Value Realized</b>	<ul style="list-style-type: none"> <li>Rialto: The San Bernardino trans-shipment property was acquired for approximately \$12.1 million in September 2010. After the tenant restructured its debt and renegotiated its labor contracts, Terreno realized value by selling the property for approximately \$17.0 million in November 2012 and recycled the capital into new acquisitions</li> </ul>



# Value Creation - 620 Division



- **Location:** Elizabeth, NJ
- **Size:** 1 building 150,348 SF
- **Acquisition Price:** \$10.4 million, \$69 psf
- **Occupancy:** 100% leased to 2 tenants at acquisition
- **Product Type:** Warehouse / Distribution
- Newark Airport adjacent and close proximity to Port Elizabeth

**Value Creation – Property was under contract at 20% leased and 100% leased by close. Further, the warehouse was renovated in 2013 including a new truck court, underground utilities and five new dock high loading positions**



# Value Creation - Kent 188



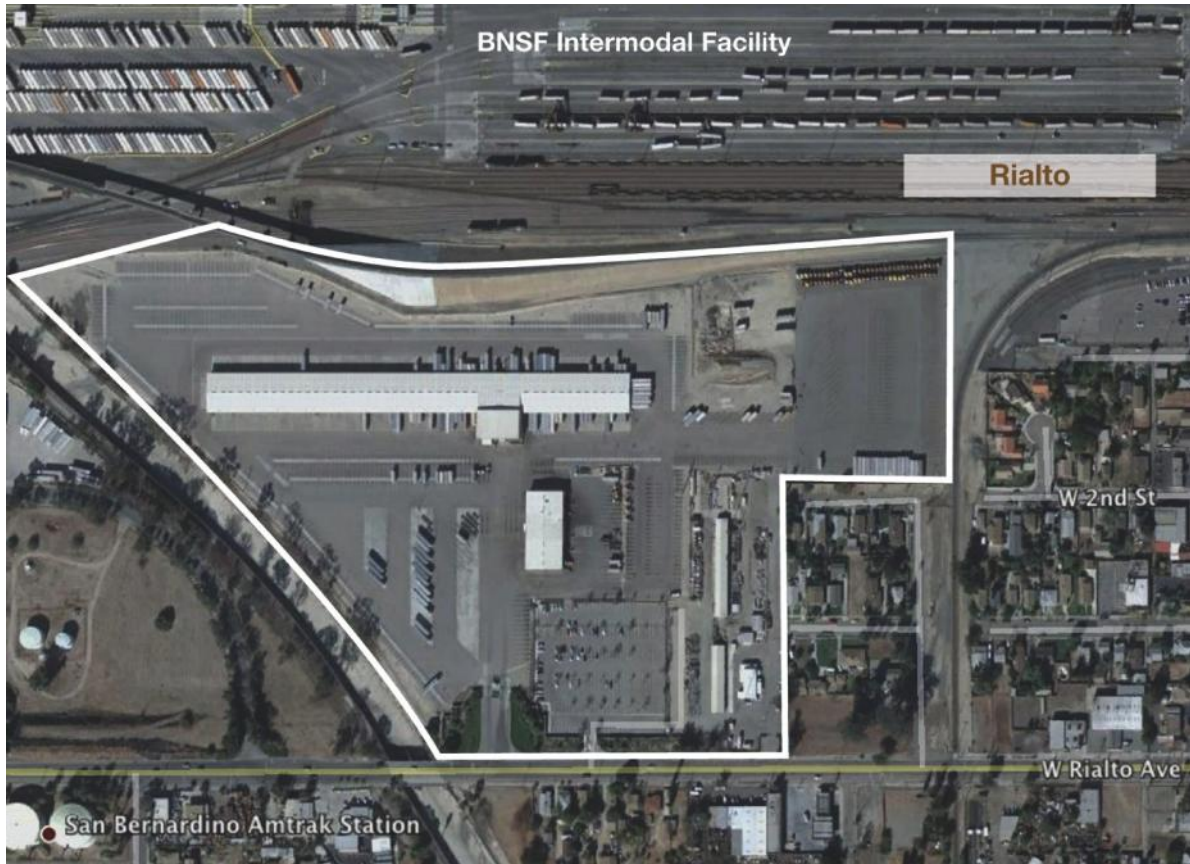
- **Location:** Kent, WA
- **Size:** 1 building, 137,872 SF
- **Acquisition Price:** \$8.3 million, \$60 psf
- **Occupancy:** 100% leased to 1 tenant at acquisition
- **Product Type:** Warehouse / distribution

**Value Creation – Property acquired with near-term lease expiration. Executed an early renewal for 100% of the property to a subsidiary of International Paper in December 2011**





# Value Creation - Rialto



- **Location:** San Bernardino, CA
- **Size:** 2 buildings, 121,500 SF on 31.7 acres
- **Acquisition Price:** \$12.1 million, \$100 psf (\$63,000 per door), \$8.50 per land sf
- **Sale Price:** \$17.0 million,
- **Occupancy:** 100% leased to 1 tenant at acquisition
- **Product Type:** Trans-Shipments
- 192 door truck terminal 100% leased to YRC Worldwide, Inc. and adjacent to the BNSF Intermodal rail facility

**Value Creation – Acquired property below peak land values; Realized value after tenant restructured its debt and labor contracts; and recycled capital**



# Market Leading Corporate Structure

## Management Alignment

- CEO and President's long-term incentive compensation fully aligned with stockholders; tied solely to multi-year total stockholder return exceeding the MSCI U.S. REIT Index and FTSE NAREIT Equity Industrial Index
  - No annual cash bonus plan for CEO and President
  - Long-term incentive compensation paid solely in stock to CEO and President
- No stock options, SARs, dividend equivalent units or UPREIT units
- Significant management investment in common shares

## Corporate Governance

- Majority independent directors with diverse expertise serving annual terms
- Adopted a majority voting standard in non-contested director elections
- Opted out of two Maryland anti-takeover provisions (no opt in without stockholder approval)
- Ownership limits designed to protect REIT status and not for the purpose of serving as an anti-takeover device
- No stockholder rights plan intended unless approved in advance by stockholders or if adopted, subject to termination if not ratified by stockholders within 12 months

# Key Takeaways

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- Focused strategy
  - Six major coastal US markets exclusively
  - Flexible and functional assets in infill locations
- Acquisition opportunities across our target markets at discounts to replacement cost
  - Opportunity for accelerated investment pace
  - Ability to convert value-add investments into stabilized assets and realize value
- Strong balance sheet and acquisition capacity
- Aligned management team and market leading corporate governance
  - CEO and President's incentive compensation based solely on total shareholder return outperformance
  - Executive management invested approximately \$10 million in common shares through the company's three public offerings and open market purchases

# Appendix: Supplemental Components of NAV

<b>COMPONENTS OF NET OPERATING INCOME</b>	<i>For the Three Months Ended March 31, 2013</i>
Total revenues	\$ 10,487
Less straight-line rents	(441)
Plus amortization of lease intangibles	(117)
Less property operating expenses	(2,990)
Plus discontinued operations NOI	-
Net operating income	<u>\$ 6,939</u>
<b>CONTRACTUAL RENT ABATEMENTS <sup>(1)</sup></b>	<b>\$ 312</b>
<b>ADJUSTMENTS TO STABILIZE PORTFOLIO</b>	
<b>BALANCE SHEET ITEMS</b>	
<b>Other assets and liabilities</b>	
Cash and cash equivalents	\$ 15,712
Restricted cash	2,454
Other assets, net	6,291
Less straight-line rents	(3,890)
Security deposits	(2,290)
Dividends payable	(2,307)
Accounts payable and other liabilities	(4,885)
Total other assets and liabilities	<u>\$ 11,085</u>
<b>DEBT AND PREFERRED STOCK</b>	
Credit facility	\$ -
Mortgage loans payable	(110,795)
Total Debt	<u>\$ (110,795)</u>
Preferred Stock	<u>\$ (46,000)</u>
Total debt and preferred stock	<u>\$ (156,795)</u>
Weighted Average Shares Outstanding	15,792,553
Total Shares Outstanding	19,224,946

(1) Represents contractual free rent given to tenants

## Q1 2013 Acquisitions

<b>Property Name</b>	<b>Date</b>	<b>Purchase Price (in thousands)</b>	<b>Estimated Stabilized Cap Rate</b>	<b>Leased % at Acquisition</b>
107th Avenue	March 6, 2013	\$ 5,095	6.3%	100%
SeaTac 8th Ave	March 21, 2013	\$ 6,450	5.6%	89%

## SUMMARY MARKET INFORMATION

<b>Market</b>	<b>Rentable Square Feet</b>	<b>Occupancy Percentage as of March 31, 2013</b>	<b>Annualized Base Rent (000's)</b>	<b>Annualized Base Rent Per Occupied Square Foot</b>
Los Angeles	1,096,422	90.9%	\$ 6,064	\$ 6.08
Northern New Jersey/New York City	1,591,324	96.3%	10,121	6.61
San Francisco Bay Area	675,083	84.2%	6,071	10.68
Seattle	492,794	100.0%	2,659	5.40
Miami	891,876	91.3%	4,768	5.86
Washington, D.C./Baltimore	453,392	98.5%	2,852	6.38
Total/Weighted Average	<u>5,200,891</u>	<u>93.3%</u>	<u>\$ 32,535</u>	<u>\$ 6.71</u>



# Appendix: Net Income, FFO and Adjusted FFO

<u>NET INCOME, FFO AND ADJUSTED FFO</u>	<i>For the Three Months Ended March 31, 2013</i>	<i>For the Three Months Ended March 31, 2012</i>
Total revenues	\$ 10,487	\$ 6,237
Property operating expenses	(2,990)	(1,860)
Depreciation and amortization	(2,737)	(1,773)
General and administrative	(1,994)	(1,415)
Acquisition costs	(457)	(714)
Interest and other income	6	1
Interest expense, including amortization	<u>(1,521)</u>	<u>(1,012)</u>
Income (loss) from continuing operations	794	(536)
Income from discontinued operations	<u>-</u>	<u>269</u>
<b>Net income (loss)</b>	<b>794</b>	<b>(267)</b>
Preferred stock dividends	<u>(891)</u>	<u>-</u>
<b>Net and comprehensive loss</b>	<b>\$ (97)</b>	<b>\$ (267)</b>
Net loss available to common stockholders per common share	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
Adjustments to arrive at Funds from Operations:		
Depreciation and amortization related to real estate	2,706	1,796
Allocation to participating securities	<u>(21)</u>	<u>-</u>
<b>Funds from operations <sup>(1)</sup></b>	<b>\$ 2,588</b>	<b>\$ 1,529</b>
Funds from operations per common share (basic and diluted)	<b>\$ 0.16</b>	<b>\$ 0.12</b>
Adjustments to arrive at Adjusted Funds From Operations:		
Acquisition costs	457	714
Stock-based compensation	442	101
Straight-line rents	(441)	(892)
Amortization of lease intangibles	(117)	90
Total capital expenditures	(2,464)	(2,997)
Capital expenditures related to stabilization <sup>(2)</sup>	<u>1,505</u>	<u>2,432</u>
<b>Adjusted funds from operations</b>	<b>\$ 1,970</b>	<b>\$ 977</b>
<b>Common stock dividends paid</b>	<b>\$ 1,612</b>	<b>\$ 931</b>
<b>Weighted average basic and diluted common shares</b>	<b>15,792,553</b>	<b>12,686,573</b>

(1) Includes expensed acquisition costs of \$0.5 million and \$0.7 million, respectively, for the three months ended March 31, 2013 and 2012

(2) Capital expenditures related to stabilization includes costs incurred related to leasing acquired vacancy and renovation projects



# Appendix: Same Store Results

SAME STORE GROWTH <sup>(1)</sup>	For the Three Months Ended March 31,			
	2013	2012	\$ Change	% Change
Net income (loss)	\$ 794	\$ (267)	\$ 1,061	n/a
Depreciation and amortization				
from continuing operations	2,737	1,773	964	54.4%
Income from discontinued operations	-	(269)	269	n/a
General and administrative	1,994	1,415	579	40.9%
Acquisition costs	457	714	(257)	(36.)%
Total other income and expenses	1,515	1,011	504	49.9%
Net operating income	7,497	4,377	3,120	71.3%
Less non same store NOI	(3,006)	(9)	(2,997)	33300.0%
Same store NOI	\$ 4,491	\$ 4,368	\$ 123	2.8%
Less straight-line rents and amortization of lease intangibles <sup>(1)</sup>	(221)	(787)	566	(71.9)%
Cash-basis same store NOI	\$ 4,270	\$ 3,581	\$ 689	19.2%

HISTORICAL SAME STORE RESULTS <sup>(1) (2)</sup>	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Same store square feet	2,357,051	2,357,051	2,235,500	2,235,500	3,301,622
Occupancy %	92.0%	92.7%	92.8%	93.0%	95.3%
Cash-basis same store NOI growth %	11.9%	18.8%	43.1%	7.4%	19.2%

(1) Same Store NOI is computed as rental revenues, including tenant expense reimbursements, less property operating expenses on a same store basis. The same store pool includes all properties that were owned as of March 31, 2013 and since January 2012 and excludes properties that were either disposed of or held for sale to a third party.

(2) Historical Same Store Results include cash-basis same store NOI growth %'s as reported in the Company's Form 10-Q and 10K's. Previously reported cash-basis same store NOI growth has not been adjusted for properties that were disposed or are held for sale to a third property.