

# Terreno Realty Corporation

**Q2 Update**



# 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”, “should”, “will”, “opportunity” 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 and the market price of our stock; (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 ability 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 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 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,” in the Company’s preliminary prospectus supplement relating to the offering under the section titled “Risk Factors”, 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. 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.

# 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 (85.2%)
  - Flex (including light industrial and R&D) (12.0%)
  - Trans-shipment (2.8%)
- Functional and flexible assets
  - Generally suitable for multiple tenants
  - In 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 based on square footage at August 7, 2013

# Recent Highlights

## 2013 Highlights

- Quarter end occupancy of 89.1% including 333,000 square feet of acquired vacancy, or 5.5% of the portfolio, compared to 93.3% at Q1 2013 and 91.3% at June 30, 2012
- Closed \$90.9 million of acquisitions comprising approximately 1.1 million square feet
- As of August 7, 2013, \$26.7 million of acquisitions were under contract and \$2.7 million were under letter of intent <sup>(1)</sup>
- Issued 5.75mm shares of common stock in July 2013 at a price per share of \$18.25, generating approximately \$99.9 million in net proceeds
- Extended \$100 million revolving credit facility maturity to January 2016 and reduced the annual interest rate by 85 basis points to LIBOR plus 1.65% to 2.65% depending on leverage.
- Added a new five-year \$50.0 million term loan in January 2013 that bears interest at LIBOR plus 1.65% to 2.65% depending on leverage

## Selected Recent Acquisitions

<b>Property Name:</b>	Americas Gateway	Route 100	550 Delancy
<b>Location:</b>	Doral, FL	Elkridge, MD	Newark, NJ
<b>Acquisition Date:</b>	May 22, 2013	June 12, 2013	July 25, 2013
<b>Number of Buildings:</b>	6	2	1
<b>Square Feet:</b>	306,924	348,610	52,086
<b>Purchase Price (\$000):</b>	\$23,725	\$16,650	\$15,000
<b>Estimated Stabilized Cap Rate<sup>(2)</sup>:</b>	6.7%	8.0%	5.6%

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

(2) Outstanding borrowings are limited to the lesser of (i) the sum of the \$100.0 million revolving credit facility and the \$50.0 million term loan amount or (ii) 60% of the value of the borrowing base properties

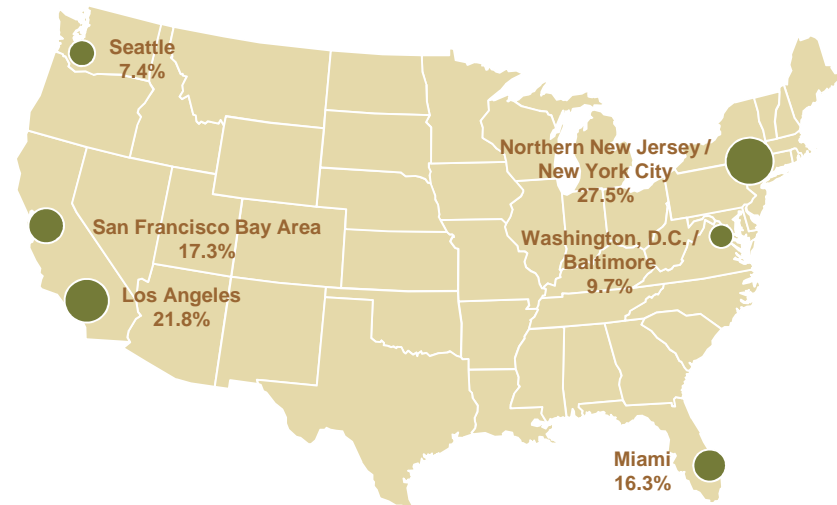


# Current Portfolio Overview

## Key Metrics

<b>Square Feet</b>	6.2 million
<b>Number of Buildings</b>	82
<b>Total Purchase Price, net of sales</b>	\$512.7 million <sup>(2)</sup>
<b>Average Acquisition Size</b>	\$11.4 million
<b>Weighted Average Occupancy at Acquisition</b>	76.4%
<b>Occupancy as of June 30, 2013</b>	89.1%

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



Note: Reflects Terreno portfolio composition at August 7, 2013

(1) Based on purchase price by market

(2) Including approximately \$53.6 million of mortgage debt assumed

# Selected Examples of Value Creation

- In addition to the acquisition and operation of core properties, Terreno has successfully stabilized 13 of 24 value-added investments to date. Since its IPO, approximately 50% of Terreno's acquisitions have been value-add investments

Strategy	Examples
<b>Repositioning of Vacant Properties</b>	<ul style="list-style-type: none"> <li>▪ 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 adding 20 dock-high loading positions, reconfigured the entrance, offices and truck court and executed a long term lease with a logistics company.</li> <li>▪ 78<sup>th</sup> Avenue: A 75,000 square foot property in Miami's Airport West submarket, which previously had not been leased for over 5 years as it required substantial renovation. Terreno renovated the property including reconfiguring the office and upgrading the overall condition of the exterior, warehouse and truck court. In May 2013, Terreno executed a long term lease with a packaging and printing company.</li> </ul>
<b>Vacant and Near Term Lease Expirations</b>	<ul style="list-style-type: none"> <li>▪ 630 Glasgow: The Inglewood, CA property was purchased vacant and within one week of closing was subsequently 100% leased to an air freight/logistics tenant.</li> <li>▪ 101<sup>st</sup> Road: Terreno acquired a newly constructed, vacant building and surface storage lot leased to FedEx in Medley, FL. A tenant was identified by Terreno during due diligence and the property was 100% leased within a week of transaction close.</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 – 78<sup>th</sup> Avenue



- **Location:** Doral, FL
- **Size:** 1 building, 74,786 SF
- **Acquisition Price:** \$4.2 million, \$56 psf
- **Occupancy:** Vacant at acquisition; lease executed during approximate \$1.9 million renovation
- **Renovation:** Reconfigured the office and upgraded the exterior, warehouse and truck court
- **Product Type:** Warehouse / distribution

**Value Creation – Property acquired vacant contemplating a substantial renovation. Executed a 7-year lease for 100% of the building prior to completion of renovation.**





# Value Creation – 101<sup>st</sup> Road



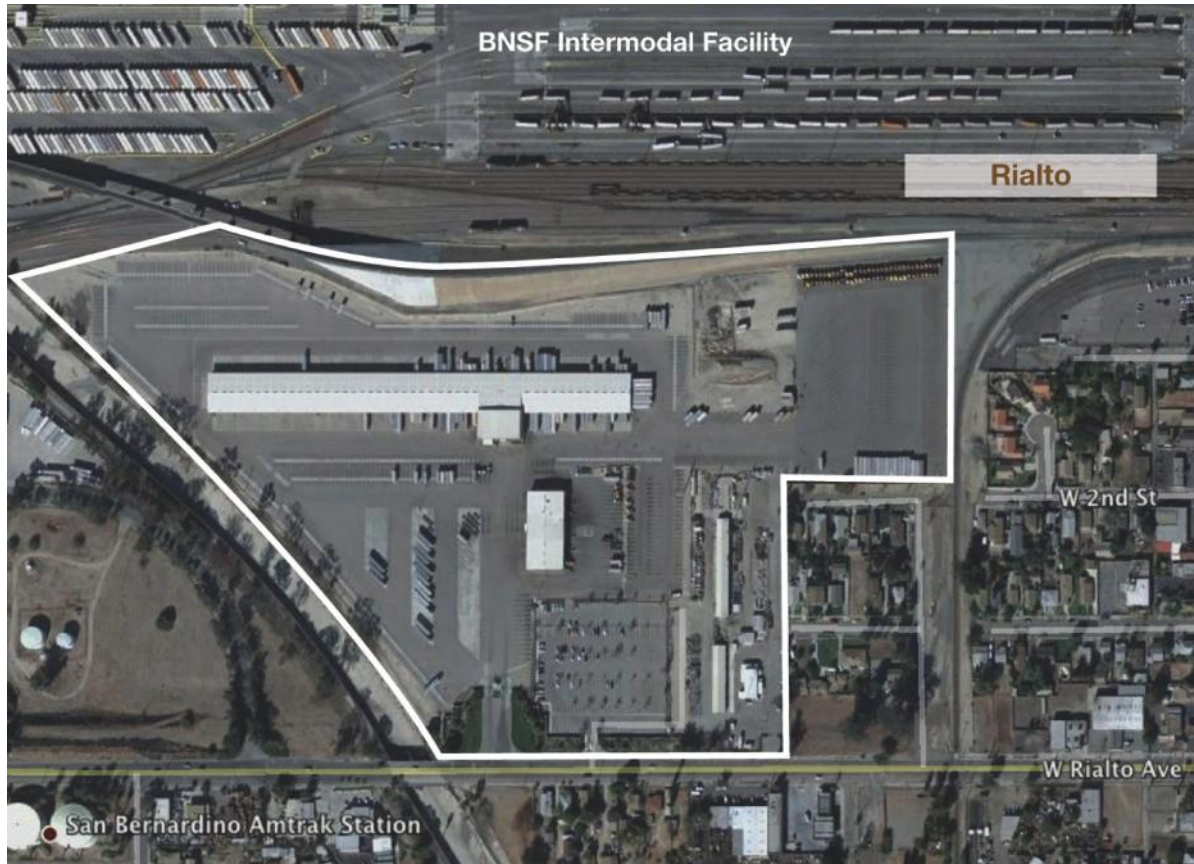
- **Location:** Medley, FL
- **Size:** 1 building 52,536 SF and approximately 2.3 acres of excess land
- **Acquisition Price:** \$6.0 million, \$114 psf
- **Occupancy:** Building vacant at acquisition; lease executed
- **Product Type:** Front-load Warehouse / Distribution; excess land leased for surface storage to FedEx

**Value Creation – Newly developed building acquired vacant. Executed a 5-year lease for 100% of the building, immediately after acquisition.**





# Value Creation - Rialto



- **Location:** San Bernardino, CA
- **Size:** 2 buildings, 121,551 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 for less than the land alone was worth at last cycle peak pricing; 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 three-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 senior management and board investment in common shares (approximately 4% of outstanding 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 \$11 million in common shares through the company's three public offerings and open market purchases

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# Appendix

# Appendix: Supplemental Components of NAV

<b>COMPONENTS OF NET OPERATING INCOME</b>	<i>For the Three Months Ended June 30, 2013</i>	
Total revenues	\$	10,815
Less straight-line rents		(1,004)
Less amortization of lease intangibles		(356)
Less property operating expenses		(3,008)
Plus discontinued operations NOI		450
Net operating income	\$	6,897
<b>CONTRACTUAL RENT ABATEMENTS <sup>(1)</sup></b>	\$	876
<b>ADJUSTMENTS TO STABILIZE PORTFOLIO</b>		
<b>BALANCE SHEET ITEMS</b>		
<b>Other assets and liabilities</b>		
Cash and cash equivalents	\$	4,637
Restricted cash		2,500
Other assets, net		8,505
Less straight-line rents		(4,894)
Security deposits		(2,863)
Dividends payable		(2,501)
Accounts payable and other liabilities		(6,575)
Total other assets and liabilities	\$	(1,191)
<b>DEBT AND PREFERRED STOCK</b>		
Credit facility	\$	(3,500)
Term loan payable		(50,000)
Mortgage loans payable		(109,976)
Total Debt	\$	(163,476)
Preferred Stock	\$	(46,000)
Total debt and preferred stock	\$	(209,476)
Weighted Average Shares Outstanding		19,076,760
Total Shares Outstanding		19,240,739

## Q2 2013 Acquisitions

Property Name	Date	Purchase Price (in thousands)	Estimated Stabilized Cap Rate	Occupancy % at Acquisition
240 Littlefield Avenue	April 3, 2013	\$ 8,400	6.4%	0%
101st Road	April 26, 2013	6,000	7.0%	0%
Americas Gateway	May 22, 2013	23,725	6.7%	70%
Route 100	June 12, 2013	16,650	8.0%	64%
1 Dodge Drive	June 20, 2013	6,775	9.0%	100%

## SUMMARY MARKET INFORMATION

Market	Rentable Square Feet	Occupancy Percentage as of March 31, 2013	Annualized Base Rent (000's)	Annualized Base Rent Per Occupied Square Foot
Los Angeles <sup>(2)</sup>	1,096,422	90.9%	\$ 6,170	\$ 6.19
Northern New Jersey/New York City	1,684,237	93.9%	10,564	6.68
San Francisco Bay Area	742,371	77.8%	6,187	10.71
Seattle	492,794	95.4%	2,588	5.50
Miami	1,251,336	88.8%	7,054	6.35
Washington, D.C./Baltimore	802,202	83.3%	3,793	5.68
Total/Weighted Average	<u>6,069,362</u>	<u>89.1%</u>	<u>\$ 36,356</u>	<u>\$ 6.73</u>

(1) Represents contractual free rent given to tenants

(2) Includes the South Main property that is subject to a ground lease until June 30, 2015 that was acquired for a purchase price of \$12.8 million. The ground lease payment provides an actual cap rate of approximately 0.3%. After expiration of the ground lease, the estimate stabilized cap rate is 8.4%

# Appendix: Net Income, FFO and Adjusted FFO

NET INCOME, FFO AND ADJUSTED FFO	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Total revenues	\$ 10,815	\$ 6,774	\$ 20,844	\$ 12,555
Property operating expenses	(3,008)	(1,948)	(5,851)	(3,707)
Depreciation and amortization	(2,896)	(1,765)	(5,532)	(3,436)
General and administrative	(2,389)	(1,886)	(4,383)	(3,301)
Acquisition costs	(613)	(324)	(1,070)	(1,038)
Interest and other income	3	2	9	3
Interest expense, including amortization	(1,540)	(1,116)	(3,061)	(2,128)
Income (loss) from continuing operations	372	(263)	956	(1,052)
Income from discontinued operations	450	520	660	1,042
<b>Net income (loss)</b>	<b>822</b>	<b>257</b>	<b>1,616</b>	<b>(10)</b>
Preferred stock dividends	(891)	-	(1,783)	-
<b>Net and comprehensive loss</b>	<b>\$ (69)</b>	<b>\$ 257</b>	<b>\$ (167)</b>	<b>\$ (10)</b>
Allocation to participating securities	-	(2)	-	-
<b>Net and comprehensive income (loss) available to common stockholders</b>	<b>\$ (69)</b>	<b>\$ 255</b>	<b>\$ (167)</b>	<b>\$ (10)</b>
Net loss available to common stockholders per common share	<b>\$ (0.00)</b>	<b>\$ 0.02</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>
Adjustments to arrive at Funds from Operations:				
Depreciation and amortization related to real estate	2,873	1,890	5,579	3,686
Allocation to participating securities	(23)	(23)	(45)	(36)
<b>Funds from operations <sup>(1)</sup></b>	<b>\$ 2,781</b>	<b>\$ 2,124</b>	<b>\$ 5,367</b>	<b>\$ 3,640</b>
Funds from operations per common share (basic and diluted)	<b>\$ 0.15</b>	<b>\$ 0.16</b>	<b>\$ 0.31</b>	<b>\$ 0.28</b>
Adjustments to arrive at Adjusted Funds From Operations:				
Acquisition costs	613	324	1,070	1,038
Stock-based compensation	877	600	1,319	701
Straight-line rents	(1,004)	(1,188)	(1,445)	(2,080)
Amortization of lease intangibles	(356)	79	(473)	169
Total capital expenditures	(2,471)	(2,892)	(4,935)	(6,194)
Capital expenditures related to stabilization <sup>(2)</sup>	1,492	1,416	2,950	3,849
<b>Adjusted funds from operations</b>	<b>\$ 1,932</b>	<b>\$ 463</b>	<b>\$ 3,853</b>	<b>\$ 1,123</b>
<b>Common stock dividends paid</b>	<b>\$ 2,307</b>	<b>\$ 1,341</b>	<b>\$ 3,919</b>	<b>\$ 2,272</b>
<b>Weighted average basic and diluted common shares</b>	<b>19,076,760</b>	<b>13,276,892</b>	<b>17,443,729</b>	<b>12,983,363</b>

(1) Includes expensed acquisition costs of \$0.6 million and \$0.3 million, respectively, for the three months ended March 31, 2013 and 2012 and \$1.1 million and \$1.0 million, respectively for the six months ended June 30, 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 June 30,				For the Six Months Ended June 30,			
	2013	2012	\$ Change	% Change	2013	2012	\$ Change	% Change
Net income (loss)	\$ 822	\$ 257	\$ 565	219.8%	\$ 1,616	\$ (10)	\$ 1,626	n/a
Depreciation and amortization from continuing operations	2,896	1,765	1,131	64.1%	5,532	3,436	2,096	61.0%
Income from discontinued operations	(450)	(520)	70	(13.5)%	(660)	(1,042)	382	(36.7)%
General and administrative	2,389	1,886	503	26.7%	4,383	3,301	1,082	32.8%
Acquisition costs	613	324	289	89.2%	1,070	1,038	32	3.1%
Total other income and expenses	1,537	1,114	423	38.0%	3,052	2,125	927	43.6%
Net operating income	7,807	4,826	2,981	61.8%	14,993	8,848	6,145	69.5%
Less non same store NOI	(3,415)	(505)	(2,910)	576.2%	(6,423)	(515)	(5,908)	1147.2%
Same store NOI	\$ 4,392	\$ 4,321	\$ 71	1.6%	\$ 8,570	\$ 8,333	\$ 237	2.8%
Less straight-line rents and amortization of lease intangibles	(348)	(1,040)	692	(66.5)%	(623)	(1,874)	1,251	(66.8)%
Cash-basis same store NOI	\$ 4,044	\$ 3,281	\$ 763	23.3%	\$ 7,947	\$ 6,459	\$ 1,488	23.0%

HISTORICAL SAME STORE RESULTS <sup>(1)(2)</sup>	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Same store square feet	2,357,051	2,235,500	2,235,500	3,301,622	3,093,110
Occupancy %	92.7%	92.8%	93.0%	95.3%	93.9%
Cash-basis same store NOI growth %	18.8%	43.1%	7.4%	19.2%	23.3%

(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 June 30, 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 subsequently disposed or are held for sale to a third property