March 17, 2015

Dear Fellow Shareholders,
Here is a review of our strategy, our 2014 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). As of year-end 2014, 89% of our investments are warehouse/distribution, 9% are flex and 2% are trans-shipment.

Our six-market strategy provides a margin of safety. We acquire properties at discounts to replacement cost. We may renovate, redevelop or expand properties, but we do no ground up greenfield 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 2014 results

We acquired 20 properties containing 29 buildings for a purchase price totaling approximately $236 million, up 12% from 2013 and a new record for us, adding 2.3 million square feet to our portfolio.

We did not sell any properties during 2014; we have one property under contract for sale for approximately $11 million.

We completed the 190,000 square foot expansion of one of our existing properties for approximately $14 million.

Our value-add acquisitions generally contain vacant space or space with near term expirations. On average, our acquisitions have been 81% leased. Notwithstanding, we ended the year 93.7% leased, 97.1% in our same store pool, delivering on our investment strategy by stabilizing 24 of our 37 value-add properties.

Our same store cash-basis net operating income grew by 12.9%. We produced EPS of $0.23 up 53% compared to $0.15 in 2013 and Funds From Operations of $0.86 per share, up 44% compared to $0.60 in 2013.

We raised common equity capital twice in 2014; $143 million at $17.75 per share in May and $192 million at $19.60 per share in December.

Our total shareholder return in 2014 was 19.9%. In keeping with our commitment to fellow shareholders to measure our performance over rolling three-year periods, we did not receive any incentive compensation in 2014, since over the preceding three years our 49% total shareholder return underperformed the 59% produced by the Morgan Stanley REIT index and the 73% of industrial REITs. 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 are growing in our markets and, on average, the rental rates we are likely to achieve on new or renewed leases for our 2015 expirations will generally be at or above the rates currently being paid for the same space. However, new speculative development is underway in a growing number of markets. This new development will slow potential rent growth from what it would be without such new development.

We see a growing set of acquisition opportunities and, with approximately $136 million of acquisitions completed so far in 2015, expect to substantially increase our total acquisitions in 2015 over 2014.

Over the intermediate term of the next four to five years, we expect to grow our portfolio to approximately $3 billion of assets up from approximately $1.1 billion today utilizing approximately $2 billion of equity up from approximately $1 billion today. We expect this 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, extremely 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 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