March 19, 2014

Dear Fellow Shareholders,
Here is a review of our strategy, our 2013 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 will 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 2013, 86% of our investments are warehouse/distribution, 11% are flex and 3% 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 green-field 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 2013 results
We acquired 18 properties containing 30 buildings and a land parcel for the expansion of one of our existing buildings for an aggregate purchase price of approximately $211 million, up more than 16% from 2012 and a new record for us, adding 2.0 million square feet to our portfolio.

We recycled $19 million through the sale of a property in Northern New Jersey that we purchased in 2010, generating a $2.8 million gain and 12% unleveraged IRR.

We now own 97 buildings totaling 6.9 million square feet that we purchased for approximately $622 million.

Our value-add acquisitions generally contain vacant space or space with near term expirations. On average, our acquisitions have been 78% leased. Despite that, we ended the year 92.8% leased, 96.8% in our same-store pool, and have delivered on our investment strategy by stabilizing 15 of our 28 value-add properties.

Our same-store cash basis net operating income grew by 18.1%. We produced EPS of $0.15 compared to $0.19 in 2012 and Funds From Operations of $0.60 per share, up 7% compared with $0.57 in 2012.

Our total shareholder return in 2013 was 17.9%, significantly outpacing both the REIT index and our industrial REIT peers. 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 2013, since over the preceding three years our 5.5% total shareholder return underperformed. While not satisfied with this result, we are fully aligned with our public shareholders and committed to creating superior long-term value for all.

This is our outlook
We believe that industrial rents have stopped falling in our markets and in most cases are rising and will continue to rise in 2014. However, new speculative development has begun in a growing number of markets. This new development is likely to slow potential rent growth from what it would be without such new development.

We see a growing set of acquisition opportunities and are hopeful to increase our total acquisitions in 2014 over 2013.

Over the intermediate term of the next five to six years, we expect to grow our portfolio to approximately $3 billion of assets 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 a total of 133,575 additional common shares in our 2013 equity offerings.

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