March 1, 2019

Dear Fellow Shareholders,

Here is a review of our strategy, our 2018 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. 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; in some of our submarkets the supply of industrial product is shrinking. Future 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 transshipment (primarily truck terminals). As of year-end 2018, 93% of our investments are warehouse/distribution, 5% are flex and 2% are transshipment. Further we invest in improved land parcels in very infill locations that we lease as surface storage and retain the optionality of redevelopment to higher and better use.

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 60% of our acquisitions so far have been value-add. We retain the best local third-party firms to help us efficiently manage our space.

We sell properties 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 2018 results

Our same store cash basis net operating income grew by 9.1%. Our cash rents on new and renewed leases commencing in 2018 grew 19.2% demonstrating what the right assets in very infill locations can produce. Our value-add acquisitions generally contain vacant space or space with near-term lease expirations and many require physical repositioning. On average our acquisitions since our IPO have been 83.1% leased.

Notwithstanding, delivering on our investment strategy and stabilizing 69 value-add properties, we ended the year 98.4% leased and 99.1% leased in our same store pool.

Market conditions were the best since our 2010 IPO, our balance sheet was well positioned, and investor demand for our type of real estate was high. We acquired 15 properties containing 17 buildings aggregating 1.0 million square feet and six improved land parcels totaling 19.8 acres for a purchase price of approximately $220 million. We made a senior secured loan of $55mm with the option of acquiring a portion of the collateral.

We sold four properties for approximately $82 million. We have sold 15 properties since our IPO for a total of approximately $242 million generating a cumulative unleveraged IRR of 13.4%.

We earned EPS of $1.09 up from $0.95 in 2017. Our 2018 Funds from Operations was $1.30 per share, up a strong 19.3% compared to $1.09 per share in 2017. Further we operated with excess liquidity and an undrawn credit facility for much of the year.
We raised $209 million of common equity via our ATM program at an average price of $38.04 per share and did not repurchase any common shares pursuant to our share buyback program in 2018. We expanded our senior secured credit facility to $400 million, extended its maturity date and lowered its costs.

Our total shareholder return in 2018 was 3.3%. Our total shareholder return over the preceding three years of 74% significantly exceeded the 10% total return of the MSCI US REIT index and the 54% total return of industrial REITs. In keeping with our commitment to fellow shareholders to measure our performance over rolling three-year periods, we received a maximum payout under our total shareholder return based incentive compensation plan for the fourth consecutive year—the fourth time since our 2010 IPO. We are fully aligned with our public shareholders and committed to creating superior long-term value for all of us.

This is our outlook

Current operating conditions in our six markets are excellent. We believe that on average, the rental rates we are likely to achieve on new or renewed leases for our 2019 expirations will be at or above the rates currently being paid for the same space. However, new speculative development continues. This new development will slow potential rent growth from what it would be without such new development. Macroeconomic conditions, while uncertain and impossible to accurately predict, appear less favorable to us than last year.

We see attractive acquisition opportunities. Nevertheless, our acquisition volume will be dependent on both the quality and pricing of the opportunity set and the price of our stock relative to NAV. Those conditions, not knowable in advance, will determine our results. We will continue to sell assets and redeploy the capital to enhance NAV or return the capital to shareholders. We entered 2019 with our balance sheet well positioned for growth.

In this letter five years ago, we wrote to you outlining our plan to grow our portfolio to approximately $3 billion of assets by 2020. Utilizing $2 billion of equity and $1 billion of debt, we expected this to optimize our operating efficiency and increase our shareholder liquidity. Over the last five years, as we reached $2.9 billion of assets and $2.5 billion of equity, we have focused increasingly on urban infill locations within our six markets where land values are high. We limit our portfolio to a size where we can continue to make directly informed operational decisions. Balancing this limit with the richer urban infill opportunity set, we now expect our assets to reach $4 billion with approximately $3 billion of equity. We remain mindful, always, 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.

In February 2019 we welcomed David Lee to our Board of Directors. As we pursue Terreno's goals, we thank our Board of Directors for their counsel and our fellow shareholders for their support.

Sincerely,

W. Blake Baird
Chairman & Chief Executive Officer

Michael A. Coke
President