

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 001-34603

Terreno Realty Corporation

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

27-1262675
(I.R.S. Employer
Identification Number)

101 Montgomery Street, Suite 200
San Francisco, CA
(Address of Principal Executive Offices)

94104
(Zip Code)

Registrant's telephone number, including area code: (415) 655-4580

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Exchange on Which Registered</u>
Common Stock, \$0.01 par value per share	New York Stock Exchange
7.75% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price, as reported by the New York Stock Exchange, at which the common equity was last sold, as of June 30, 2015, the last business day of the Registrant's most recently completed second fiscal quarter: \$830,670,909. (For this computation, the Registrant has excluded the market value of all shares of its common stock reported as beneficially owned by executive officers and directors of the Registrant).

The registrant had 43,391,507 shares of its common stock, \$0.01 par value per share, outstanding as of February 9, 2016.

Documents Incorporated by Reference

Part III of this Annual Report on Form 10-K incorporates by reference portions of Terreno Realty Corporation's Proxy Statement for its 2016 Annual Meeting of Stockholders, which the registrant anticipates will be filed with the Securities and Exchange Commission no later than 120 days after the end of its 2015 fiscal year pursuant to Regulation 14A.

Terreno Realty Corporation
Annual Report on Form 10-K
for the Year Ended December 31, 2015

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We caution investors that forward-looking statements are based on management’s beliefs and on assumptions made by, and information currently available to, management. When used, the words “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “might”, “plan”, “project”, “result”, “should”, “will”, “seek”, “target”, “see”, “likely”, “position”, “opportunity”, and similar expressions which do not relate solely to historical matters are intended to identify forward-looking statements. 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 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.

Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- the factors included in this Annual Report on Form 10-K, including those set forth under the headings “Risk Factors”, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”;
- our ability to identify and acquire industrial properties on terms favorable to us;
- general volatility of the capital markets and the market price of our common stock;
- adverse economic or real estate conditions or developments in the industrial real estate sector and/or in the markets in which we acquire properties;
- our dependence on key personnel and our reliance on third parties to property manage the majority of our industrial properties;
- our inability to comply with the laws, rules and regulations applicable to companies, and in particular, public companies;
- our ability to manage our growth effectively;
- tenant bankruptcies and defaults on or non-renewal of leases by tenants;
- decreased rental rates or increased vacancy rates;
- increased interest rates and operating costs;
- declining real estate valuations and impairment charges;
- our expected leverage, our failure to obtain necessary outside financing, and future debt service obligations;
- our ability to make distributions to our stockholders;
- our failure to successfully hedge against interest rate increases;
- our failure to successfully operate acquired properties;
- risks relating to our real estate redevelopment and expansion strategies and activities;
- our failure to qualify or maintain our status as a real estate investment trust (“REIT”) and possible adverse changes to tax laws;

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- uninsured or underinsured losses and costs relating to our properties or that otherwise result from future litigation;
- environmental uncertainties and risks related to natural disasters;
- financial market fluctuations; and
- changes in real estate and zoning laws and increases in real property tax rates.

PART I

Item 1. Business.

Overview

Terreno Realty Corporation (“Terreno”, and together with its subsidiaries, “we”, “us”, “our”, “our company” or “the company”) acquires, owns and operates 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. We invest in several types of industrial real estate, including warehouse/distribution (approximately 92.2% of our total portfolio square footage as of December 31, 2015), flex (including light industrial and research and development, or R&D) (approximately 6.3%) and trans-shipment (approximately 1.5%). We target functional buildings in infill locations that may be shared by multiple tenants and that cater to customer demand within the various submarkets in which we operate. Infill locations are geographic locations surrounded by high concentrations of already developed land and existing buildings. As of December 31, 2015, we owned 148 buildings (including one building held for sale) aggregating approximately 11.1 million square feet, one redevelopment property expected to contain approximately 0.2 million square feet and two improved land parcels consisting of 3.5 acres, which we purchased for an aggregate purchase price of approximately \$1.1 billion. As of December 31, 2015, our properties were approximately 91.5% leased to 352 customers, the largest of which accounted for approximately 4.4% of our total annualized base rent.

We are an internally managed Maryland corporation. We were incorporated in November 2009 and on February 16, 2010 we completed our initial public offering of 8,750,000 shares of our common stock and a concurrent private placement of an aggregate of 350,000 shares of our common stock to our executive officers.

We elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, or the Code, commencing with our taxable year ended December 31, 2010.

Our Investment Strategy

We acquire, own and operate in industrial properties 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.

As described in more detail in the table below, we invest in several types of industrial real estate, including warehouse/distribution, flex (including light industrial and R&D) and trans-shipment. We target functional buildings in infill locations that may be shared by multiple tenants and that cater to customer demand within the various submarkets in which we operate.

Industrial Facility General Characteristics

Warehouse / distribution (approximately 92.2% of our total portfolio square footage as of December 31, 2015)

- Single and multiple tenant facilities that typically serve tenants greater than 10,000 square feet of space
- Generally less than 20% office space

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- Typical clear height from 18 feet to 36 feet
- May include production/manufacturing areas
- Interior access via dock high and/or grade level doors
- Truck court for large and small truck distribution options, possibly including staging for a high volume of truck activity and/or trailer storage

Flex (including light industrial and R&D, approximately 6.3% of our total portfolio square footage as of December 31, 2015)

- Single and multiple tenant facilities that typically serve tenants less than 10,000 square feet of space
- Facilities generally accommodate both office and warehouse/manufacturing activities
- Typically has a larger amount of office space and shallower bay depths than warehouse/distribution facilities
- Parking consistent with increased office use
- Interior access via grade level and/or dock high doors
- Staging for moderate truck activity
- May include a showroom, service center, or assembly/light manufacturing component
- Enhanced landscaping

Trans-shipment (approximately 1.5% of our total portfolio square footage as of December 31, 2015)

- Includes truck terminals and other trans-shipment facilities, which serve both single and multiple tenants
- Typically has a high number of dock high doors, shallow bay depth and lower clear height
- Staging for a high volume of truck activity and trailer storage

We selected our target markets by drawing upon the experience of our executive management investing and operating in over 50 global industrial markets located in North America, Europe and Asia, the fundamentals of supply and demand, and in anticipation of trends in logistics patterns resulting from population changes, regulatory and physical constraints, changes in technology, potential long term increases in carbon prices and other factors. We believe that our target markets have attractive long term investment attributes. We target assets with characteristics that include, but are not limited to, the following:

- Located in high population coastal markets;
- Close proximity to transportation infrastructure (such as sea ports, airports, highways and railways);
- Situated in supply-constrained submarkets with barriers to new industrial development, as a result of physical and/or regulatory constraints;
- Functional and flexible layout that can be modified to accommodate single and multiple tenants;
- Acquisition price at a discount to the replacement cost of the property;
- Potential for enhanced return through re-tenancing or operational or physical improvements; and
- Opportunity for higher and better use of the property over time.

In general, we prefer to utilize local third party property managers for day-to-day property management. We believe outsourcing property management is cost effective and provides us with operational flexibility and is a source of acquisition opportunities. We currently manage one of our properties directly and may directly manage other properties in the future if we determine such direct property management is in our best interest.

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We have no current intention to acquire undeveloped industrial land or to pursue ground up development. However, we may pursue redevelopment and expansion opportunities of properties that we own or acquire adjacent land to expand our existing facilities.

We expect that we will continue to acquire the significant majority of our investments as equity interests in individual properties, portfolios of properties or acquired improved industrial land parcels which may be rented without a building in place. We may also acquire industrial properties through the acquisition of other corporations or entities that own industrial real estate. We will opportunistically target investments in debt secured by industrial real estate that would otherwise meet our investment criteria with the intention of ultimately acquiring the underlying real estate. We currently do not intend to target specific percentages of holdings of particular types of industrial properties. This expectation is based upon prevailing market conditions and may change over time in response to different prevailing market conditions.

The properties we acquire may be stabilized (fully leased) or unstabilized (have near term lease expirations or be partially or fully vacant). During the period from February 16, 2010 to December 31, 2015, we acquired 48 unstabilized properties of which 33 have been stabilized.

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 of the property is significantly greater than its estimated replacement cost. Capital from such sales is reinvested into properties that are expected to provide better prospective returns or returned to shareholders. We have disposed of four properties since inception for a cumulative sales price of approximately \$60.6 million and a total gain of approximately \$17.4 million.

Competitive Strengths

We believe we distinguish ourselves from our competitors through the following competitive advantages:

- **Focused Investment Strategy.** We invest exclusively in six major coastal U.S. markets and focus on infill locations. We selected our six target markets based upon the experience of our executive management investing and operating in over 50 global industrial markets located in North America, Europe and Asia, the fundamentals of supply and demand, and in anticipation of trends in logistics patterns resulting from population changes, regulatory and physical constraints, changes in technology, potential long term increases in carbon prices and other factors. We have no current intention to acquire undeveloped land or pursue ground up development, but we may pursue redevelopment and expansion activities.
- **Highly Aligned Compensation Structure.** We believe that executive compensation should be closely aligned with long-term stockholder value creation. As a result, all of the long-term equity incentive compensation of our executive officers is based solely on our total shareholder return exceeding the total shareholder return of the MSCI U.S. REIT Index (RMS) or the FTSE NAREIT Equity Industrial Index.
- **Commitment to Strong Corporate Governance.** We are committed to strong corporate governance, as demonstrated by the following:
 - all members of our board of directors serve annual terms;
 - we have adopted a majority voting standard in non-contested director elections;
 - we have opted out of two Maryland anti-takeover provisions and, in the future, we may not opt back in to these provisions without stockholder approval;
 - we designed our ownership limits solely to protect our status as a REIT and not for the purpose of serving as an anti-takeover device; and

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- we have no stockholder rights plan. In the future, we will not adopt a stockholder rights plan unless our stockholders approve in advance the adoption of such a plan or, if adopted by our board of directors, we will submit the stockholder rights plan to our stockholders for a ratification vote within 12 months of adoption or the plan will terminate.

Our Financing Strategy

The primary objective of our financing strategy is to maintain financial flexibility with a conservative capital structure using retained cash flows, long-term debt and the issuance of common and perpetual preferred stock to finance our growth. Over the long term, we intend to:

- limit the sum of the outstanding principal amount of our consolidated indebtedness and the liquidation preference of any outstanding perpetual preferred stock to less than 40% of our total enterprise value;
- maintain a fixed charge coverage ratio in excess of 2.0x;
- maintain a debt-to-adjusted EBITDA ratio below 6.5x;
- limit the principal amount of our outstanding floating rate debt to less than 20% of our total consolidated indebtedness; and
- have staggered debt maturities that are aligned to our expected average lease term (5-7 years), positioning us to re-price parts of our capital structure as our rental rates change with market conditions.

We intend to preserve a flexible capital structure with a long-term goal to maintain our investment grade rating and be in a position to issue additional unsecured debt and additional perpetual preferred stock. During 2015, Fitch Ratings assigned us an initial issuer rating of BBB- with a stable outlook. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. There can be no assurance that we will be able to maintain our current credit rating. Our credit rating can affect the amount and type of capital we can access, as well as the terms of any financings we may obtain. In the event our current credit rating is downgraded, it may become difficult or expensive to obtain additional financing or refinance existing obligations and commitments. We intend to primarily utilize unsecured bonds, recourse bank term loans, credit facilities and perpetual preferred stock. We may also assume debt in connection with property acquisitions which may have a higher loan-to-value.

Our Corporate Structure

We are a Maryland corporation formed on November 6, 2009 and have been publicly held and subject to U.S. Security and Exchange Commission, or SEC, reporting obligations since 2010. We are not structured as an Umbrella Partnership Real Estate Investment Trust, or UPREIT. We currently own our properties indirectly through subsidiaries and may utilize one or more taxable REIT subsidiaries as appropriate.

Our Tax Status

We elected to be taxed as a REIT under Sections 856 through 860 of the Code commencing with our taxable year ended December 31, 2010. We believe that our organization and method of operation has enabled and will continue to enable us to meet the requirements for qualification and taxation as a REIT for federal income tax purposes. To maintain REIT status we must meet a number of organizational and operational requirements, including a requirement that we annually distribute at least 90% of our net taxable income to our stockholders, excluding net capital gains. As a REIT, we generally will not be subject to federal income tax on REIT taxable income we currently distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax at regular corporate rates. Even if we qualify for taxation as a REIT, we may be

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subject to some federal, state and local taxes on our income or property and the income of our taxable REIT subsidiaries, if any, will be subject to taxation at regular corporate rates. We do not currently own any taxable REIT subsidiaries but may in the future.

Competition

We believe the current market for industrial real estate acquisitions to be competitive. We compete for real property investments with pension funds and their advisors, bank and insurance company investment accounts, other public and private real estate investment companies, including other REITs, real estate limited partnerships, owner-users, individuals and other entities engaged in real estate investment activities, some of which have greater financial resources than we do. In addition, we believe the leasing of real estate to be highly competitive. We experience competition for customers from owners and managers of competing properties. As a result, we may have to provide free rental periods, incur charges for tenant improvements or offer other inducements, all of which may have an adverse impact on our results of operations.

Environmental Matters

The industrial properties that we own and will acquire are subject to various federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require us, as owner of a contaminated property, to clean up the property, even if we did not know of or were not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated, and therefore it is possible we could incur these costs even after we sell some of our properties. In addition to the costs of cleanup, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow using the property as collateral or to sell the property. Under applicable environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or an incinerator, pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment.

Furthermore, various court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos at one of our properties may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental laws restrict the use of a property or place conditions on various activities. An example would be laws that require a business using chemicals to manage them carefully and to notify local officials that the chemicals are being used.

We could be responsible for any of the costs discussed above. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could adversely affect the funds available for distribution to our stockholders. We generally obtain "Phase I environmental site assessments", or ESAs, on each property prior to acquiring it. However, these ESAs may not reveal all environmental costs that might have a material adverse effect on our business, assets, results of operations or liquidity and may not identify all potential environmental liabilities.

In general, we utilize local third party property managers for day-to-day property management and will rely on these third parties to operate our industrial properties in compliance with applicable federal, state and local environmental laws in their daily operation of the respective properties and to promptly notify us of any environmental contaminations or similar issues. As a result, we may become subject to material environmental liabilities of which we are unaware. We can make no assurances that (1) future laws or regulations will not impose material environmental liabilities on us, or (2) the environmental condition of our industrial properties will not be affected by the condition of the properties in the vicinity of our industrial properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to us. We were not aware of any significant or material exposures as of December 31, 2015 and 2014.

Employees

As of February 10, 2016, we have 18 employees. None of our employees is a member of any union.

Supplemental Material U.S. Federal Income Tax Considerations

Supplemental Tax Disclosures – Updates to REIT Rules

The “Protecting Americans from Tax Hikes Act of 2015” (the “PATH Act”) was enacted on December 18, 2015 and contains several provisions pertaining to REIT qualification and taxation. Some of these provisions implicate certain tax-related disclosures contained in the prospectus supplement, dated March 31, 2015, with respect to our at-the-market equity offering program and are briefly summarized below:

- For taxable years beginning before January 1, 2018, no more than 25% of the value of our assets may consist of stock or securities of one or more taxable REIT subsidiaries. For taxable years beginning after December 31, 2017, the PATH Act reduces this limit to 20%.
- For purposes of the REIT asset tests, the PATH Act provides that debt instruments issued by publicly offered REITs will constitute “real estate assets.” However, unless such a debt instrument is secured by a mortgage or otherwise would have qualified as a real estate asset under prior law, (i) interest income and gain from such a debt instrument is not qualifying income for purposes of the 75% gross income test and (ii) all such debt instruments may represent no more than 25% of the value of our total assets.
- For taxable years beginning after December 31, 2015, certain obligations secured by a mortgage on both real property and personal property will be treated as a qualifying real estate asset and give rise to qualifying income for purposes of the 75% gross income test if the fair market value of such personal property does not exceed 15% of the total fair market value of all such property.
- A 100% excise tax is imposed on “redetermined TRS service income,” which is income of a taxable REIT subsidiary attributable to services provided to, or on behalf of its associated REIT and which would otherwise be increased on distribution, apportionment, or allocation under Section 482 of the Code.
- For distributions made in taxable years beginning after December 31, 2014, the preferential dividend rules no longer apply to us.
- Additional exceptions to the rules under the Foreign Investment in Real Property Act (“FIRPTA”) were introduced for non-U.S. persons that constitute “qualified shareholders” (within the meaning of Section 897(k)(3) of the Code) or “qualified foreign pension funds” (within the meaning of Section 897(l)(2) of the Code).
- After February 16, 2016, the FIRPTA withholding rate under Section 1445 of the Code for dispositions of U.S. real property interests is increased from 10% to 15%.
- The PATH Act increases from 5% to 10% the maximum stock ownership of the REIT that a non-U.S. shareholder may have held to avail itself of the FIRPTA exception for shares regularly traded on an established securities market.

Available Information

We maintain an internet website at the following address: <http://terreno.com>. The information on our website is neither part of nor incorporated by reference in this Annual Report on Form 10-K. We make available, free of charge, on or through our website certain reports and amendments to those reports that we file with or furnish to the SEC in accordance with the Exchange Act. These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and exhibits and amendments to these reports, and Section 16 filings. Our Code of Business Conduct and Ethics is also available on our website. We intend to

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disclose any amendments or waivers to our Code of Business Conduct and Ethics that apply to any of our executive officers on our website. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC. You may also obtain our reports by accessing the EDGAR database at the SEC's website at <http://www.sec.gov>.

Item 1A. Risk Factors.

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us or that we may currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results and cash flows could be adversely affected. Investors should also refer to our quarterly reports on Form 10-Q and current reports on Form 8-K for any material updates to these risk factors.

Risks Related to Our Business and Our Properties

Our long-term growth will depend upon future acquisitions of properties, and we may be unable to consummate acquisitions on advantageous terms, the acquired properties may not perform as we expect, or we may be unable to quickly and efficiently integrate our new acquisitions into our existing operations.

We intend to continue to acquire industrial properties in our six target markets. The acquisition of properties entails various risks, including the risks that our investments may not perform as well as we had expected, that we may be unable to quickly and efficiently integrate our new acquisitions into our existing operations and that our cost estimates for bringing an acquired property up to market standards may prove inaccurate. In addition, we cannot assure you of the availability of investment opportunities in our targeted markets at attractive pricing levels or at all. In the event that such opportunities are not available in our targeted markets as we expect, our ability to execute our business plan and realize our projections for growth may be materially adversely affected. Further, we face significant competition for attractive investment opportunities from other well-capitalized real estate investors, including pension funds and their advisors, bank and insurance company investment accounts, other public and private real estate investment companies, including other REITs, real estate limited partnerships, owners, individuals and other entities engaged in real estate investment activities, some of which have a history of operations, greater financial resources than we do and a greater ability to borrow funds to acquire properties. This competition increases as investments in real estate become increasingly attractive relative to other forms of investment. As a result of competition, we may be unable to acquire properties as we desire or the purchase price may be significantly elevated.

In addition, we expect to finance future acquisitions through a combination of borrowings under our revolving credit facility, term loans, unsecured debt, debt secured by individual properties or pools of properties, the use of retained cash flows and the issuance of a combination of long-term debt and common and perpetual preferred stock, which may not be available at all or on advantageous terms and which could adversely affect our cash flows. Any of the above risks could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock and our preferred stock.

We may make acquisitions that pose integration and other risks that could harm our business.

We may be required to incur debt and expenditures and issue additional shares of our common stock or preferred stock to pay for industrial properties that we may acquire, which may dilute our stockholders' ownership interests and may reduce or eliminate our profitability. These acquisitions may also expose us to risks such as:

- the possibility that we may not be able to successfully integrate acquired properties into our operations;
- the possibility that additional capital expenditures may be required;

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- the possibility that senior management may be required to spend considerable time negotiating agreements and integrating acquired properties;
- the possible loss or reduction in value of acquired properties;
- the possibility of pre-existing undisclosed liabilities regarding acquired properties, including but not limited to environmental or asbestos liability, of which our insurance may be insufficient or for which we may be unable to secure insurance coverage;
- the possibility that a concentration of our industrial properties in Los Angeles, the San Francisco Bay Area and Seattle may increase our exposure to seismic activity, especially if these industrial properties are located on or near fault zones; and
- the possibility that we may not meet our estimated forecasts related to stabilized cap rates.

We expect acquisition costs, including capital expenditures required to render industrial properties operational, to increase in the future. If our revenue does not keep pace with these potential acquisition costs, we may not be able to maintain our current or expected earnings as we absorb these additional expenses. There is no assurance we would successfully overcome these risks or any other problems encountered with these acquisitions.

If we cannot obtain additional financing, our growth will be limited.

If adverse conditions in the credit markets — in particular with respect to real estate — materially deteriorate, our business could be materially and adversely affected. Our long-term ability to grow through investments in industrial properties, including our ability to realize our projections for growth will be limited if we cannot obtain additional financing on favorable terms or at all. In the future, we will rely on equity and debt financing, including issuances of common and perpetual preferred stock, borrowings under our revolving credit facility, term loans, issuances of unsecured debt securities and debt secured by individual properties or pools of properties, to finance our acquisition activities and for working capital. If we are unable to obtain equity or debt financing from these or other sources, or to refinance existing indebtedness upon maturity, our financial condition and results of operations would likely be adversely affected. Market conditions may make it difficult to obtain additional financing, and we cannot assure you that we will be able to obtain additional debt or equity financing or that we will be able to obtain it on favorable terms.

We have a \$100.0 million revolving credit facility to finance acquisitions and for working capital requirements. Terreno guarantees the obligations of the borrower (a wholly-owned subsidiary) under the revolving credit facility. The revolving credit facility matures in May 2018 and provides for one 12-month extension option exercisable by us, subject, among other things, to there being an absence of an event of default and to our payment of an extension fee. As of December 31, 2015, there were no borrowings outstanding on the revolving credit facility.

In addition, to qualify as a REIT, we are required to distribute at least 90% of our taxable income (determined before the deduction for dividends paid and excluding any net capital gains) each year to our stockholders, and we generally expect to make distributions in excess of such amount. As a result, our ability to retain earnings to fund acquisitions, redevelopment and expansion, if any, or other capital expenditures will be limited.

The availability and timing of cash distributions is uncertain.

We have made regular quarterly distributions (which we also refer to as dividends, in this Annual Report on Form 10-K and in the other documents we file with the SEC) to holders of our common stock and preferred stock and we intend to continue to pay regular quarterly distributions. However, we bear all expenses incurred by our operations, and the funds generated by our operations, after deducting these expenses, may not be sufficient to

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cover desired levels of distributions to our stockholders. In addition, our board of directors, in its discretion, may retain any portion of such cash for working capital. Our ability to make distributions to our stockholders also will depend on our levels of retained cash flows, which we intend to use as a source of investment capital. We cannot assure our stockholders that sufficient funds will be available to pay distributions. Our corporate strategy is to fund the payment of quarterly distributions to our stockholders entirely from distributable cash flows. However, we may fund our quarterly distributions to our stockholders from a combination of available cash flows, net of recurring capital expenditures, and proceeds from borrowings and property dispositions. In the event we are unable to consistently fund future quarterly distributions to our stockholders entirely from distributable cash flows the value of our shares may be negatively impacted.

We depend on key personnel.

Our success depends to a significant degree upon the contributions of certain key personnel including, but not limited to, our chairman and chief executive officer and our president, each of whom would be difficult to replace. If any of our key personnel were to cease employment with us, our operating results could suffer. Our ability to retain our senior management group or to attract suitable replacements should any members of the senior management group leave is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely impact our financial condition and cash flows. Further, such a loss could be negatively perceived in the capital markets. We have not obtained and do not expect to obtain key man life insurance on any of our key personnel.

We also believe that, as we expand, our future success depends, in large part, upon our ability to hire and retain highly skilled managerial, investment, financial and operational personnel. Competition for such personnel is intense, and we cannot assure our stockholders that we will be successful in attracting and retaining such skilled personnel.

Our investments are concentrated in the industrial real estate sector, and our business would be adversely affected by an economic downturn in that sector.

Our investments in real estate assets are concentrated in the industrial real estate sector. This concentration may expose us to the risk of economic downturns in this sector to a greater extent than if our business activities included a more significant portion of other sectors of the real estate industry.

Events or occurrences that affect areas in which our properties are located may materially adversely impact our financial results.

In addition to general, regional, national and international economic conditions that may materially adversely affect our business and financial results, our operating performance will be materially adversely impacted by adverse economic conditions in the specific markets in which we operate and particularly in the markets in which we have significant concentrations of properties. For example, as of December 31, 2015, approximately 24.7% of our rentable square feet was located in Northern New Jersey/New York City, representing approximately 23.8% of our total annualized base rent and 23.9% of our rentable square feet was located in Washington, D.C./Baltimore, representing approximately 23.5% of our total annualized base rent. See “Item 2 – Properties” in this Annual Report on Form 10-K for additional information regarding our ownership of properties in our markets. Any downturn in the economy in the real estate market or any of our markets and any failure to accurately predict the timing of any economic improvement in these markets could cause our operations and our revenue and cash available for distribution, including cash available to pay distributions to our stockholders, to be materially adversely affected.

We may be unable to renew leases, lease vacant space, including vacant space resulting from tenant defaults, or re-lease space as leases expire.

We cannot assure you that leases at our properties will be renewed or that such properties will be re-leased at net effective rental rates equal to or above the then current average net effective rental rates. In addition, we may be required to grant concessions or fund improvements. If the rental rates for our properties decrease, our tenants do not renew their leases or we do not re-lease a significant portion of our available space, including vacant space resulting from tenant defaults, and space for which leases are scheduled to expire, our financial condition, results of operations, cash flows, cash available for distribution to stockholders, per share trading price of our common stock and preferred stock and our ability to satisfy our debt service obligations could be materially adversely affected. In addition, if we are unable to renew leases or re-lease a property, the resale value of that property could be diminished because the market value of a particular property will depend in part upon the value of the leases of such property.

We face potential adverse effects from the bankruptcies or insolvencies of tenants or from tenant defaults generally.

We are dependent on tenants for our revenues, including certain significant tenants. Moreover, certain of our properties are occupied by a single tenant, and the income produced by these properties depends on the financial stability of that tenant. The bankruptcy or insolvency of the tenants at our properties, or tenant defaults generally, may adversely affect the income produced by our properties. The tenants, particularly those that are highly leveraged, could file for bankruptcy protection or become insolvent in the future. Under bankruptcy law, a tenant cannot be evicted solely because of its bankruptcy. On the other hand, a bankrupt tenant may reject and terminate its lease with us. In such case, our claim against the bankrupt tenant for unpaid and future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease, and, even so, our claim for unpaid rent would likely not be paid in full. This shortfall could adversely affect our cash flows and results of operations and could cause us to reduce the amount of distributions to stockholders.

A default by a tenant on its lease payments could force us to find an alternative source of revenues to pay any mortgage loan or operating expenses on the property. In the event of a tenant default, we may experience delays in enforcing our rights as landlord and may incur substantial costs, including litigation and related expenses, in protecting our investment and re-leasing our property.

Declining real estate valuations and impairment charges could adversely affect our earnings and financial condition.

We review the carrying value of our properties when circumstances, such as adverse market conditions, indicate potential impairment may exist. We base our review on an estimate of the future cash flows (excluding interest charges) expected to result from the real estate investment's use and eventual disposition. We consider factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If our evaluation indicates that we may be unable to recover the carrying value of a real estate investment, an impairment loss will be recorded to the extent that the carrying value exceeds the estimated fair value of the property. These losses would have a direct impact on our net income because recording an impairment loss results in an immediate negative adjustment to net income. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. A worsening real estate market may cause us to reevaluate the assumptions used in our impairment analysis. Impairment charges could adversely affect our financial condition, results of operations, cash available for distribution, including cash available for us to pay distributions to our stockholders and per share trading price of our common stock and preferred stock.

We utilize local third party managers for day-to-day property management for almost all of our properties.

In general, we prefer to utilize local third party managers for day-to-day property management, although we currently manage one of our properties directly and may directly manage other properties in the future. To the extent we utilize third party managers, our cash flows from our industrial properties may be adversely affected if our managers fail to provide quality services. In addition, our managers or their affiliates may manage, and in some cases may own, invest in or provide credit support or operating guarantees to industrial properties that compete with our industrial properties, which may result in conflicts of interest and decisions regarding the operation of our industrial properties that are not in our best interests.

Our real estate redevelopment or expansion strategies may not be successful.

In connection with our business strategy, we may pursue redevelopment opportunities or construct expansions or improvements of industrial properties that we own. We will be subject to risks associated with our redevelopment, renovation and expansion activities that could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock and preferred stock. Such risks include the expenditure of money and time on projects that do not perform as expected; higher than estimated construction or operating costs, including labor and material costs; the inability to complete construction on the timeframe we expect; occupancy and rental rates that may not meet expectations; and the inability to obtain financing on favorable terms or at all to finance redevelopment projects.

We may be required to fund future tenant improvements and we may not have funding for those improvements.

When a tenant at one of our properties does not renew its lease or otherwise vacates its space in one of our buildings in the future, it is likely that, in order to attract one or more new tenants, we will be required to expend funds to construct new tenant improvements in the vacated space. We may also be required to fund tenant improvements to retain tenants. Although we intend to manage our cash position or financing availability to pay for any improvements required for re-leasing, we cannot assure our stockholders that we will have adequate sources of funding available to us for such purposes in the future.

Debt service obligations could adversely affect our overall operating results, may require us to sell industrial properties and could adversely affect our ability to make distributions to our stockholders and the market price of our shares of common stock and preferred stock.

Our business strategy contemplates the use of both non-recourse secured debt and unsecured debt to finance long-term growth. As of December 31, 2015, we had total debt, net of deferred financing costs, of approximately \$381.5 million, which consisted of term loan borrowings, senior unsecured note borrowings and mortgage loans payable. While over the long-term we intend to limit the sum of the outstanding principal amount of our consolidated indebtedness and the liquidation preference of any outstanding shares of preferred stock to less than 40% of our total enterprise value, our governing documents contain no limitations on the amount of debt that we may incur, and our board of directors may change our financing policy at any time without stockholder approval. Over the long-term, we also intend to maintain a fixed charge coverage ratio in excess of 2.0x and a debt-to-adjusted EBITDA ratio below 6.5x and limit the principal amount of our outstanding floating rate debt to less than 20% of our total consolidated indebtedness. Our board of directors may modify or eliminate these limitations at any time without the approval of our stockholders. As a result, we may be able to incur substantial additional debt, including secured debt, in the future. Our existing debt, and the incurrence of additional debt, could subject us to many risks, including the risks that:

- our cash flows from operations will be insufficient to make required payments of principal and interest;
- our debt may increase our vulnerability to adverse economic and industry conditions;

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- we may be required to dedicate a substantial portion of our cash flows from operations to payments on our debt, thereby reducing cash available for distribution to our stockholders, funds available for operations and capital expenditures, future business opportunities or other purposes;
- the terms of any refinancing will not be as favorable as the terms of the debt being refinanced; and
- the use of leverage could adversely affect our ability to make distributions to our stockholders and the market price of our shares of common stock and preferred stock.

If we do not have sufficient funds to repay existing or future debt, including debt under our credit facility and senior unsecured notes, it may be necessary to refinance the debt through additional debt or additional equity financings. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates on refinancings, increases in interest expense would adversely affect our cash flows, and, consequently, cash available for distribution to our stockholders. If we are unable to refinance our debt on acceptable terms, we may be forced to dispose of industrial properties on disadvantageous terms, potentially resulting in losses. We may place mortgages on our properties that we own to secure a revolving credit facility or other debt. To the extent we cannot meet any future debt service obligations, we will risk losing some or all of our industrial properties that may be pledged to secure our obligations to foreclosure. Also, covenants applicable to any existing or future debt could impair our planned investment strategy and, if violated, result in a default.

Higher interest rates could increase debt service requirements on any floating rate debt that we incur and could reduce the amounts available for distribution to our stockholders, as well as reduce funds available for our operations, future business opportunities, or other purposes. In addition, an increase in interest rates could decrease the amount third parties are willing to pay for our assets, thereby limiting our ability to change our portfolio promptly in response to changes in economic or other conditions. Adverse economic conditions could cause the terms on which we borrow to be unfavorable. We could be required to liquidate one or more of our industrial properties in order to meet our debt service obligations at times which may not permit us to receive an attractive return on our investments.

Our \$100.0 million revolving credit facility, our \$200.0 million of term loans, our \$100.0 million of senior unsecured notes and certain of our existing mortgage loans payable contain, and we expect that our future indebtedness will contain, covenants that could limit our operations and our ability to make distributions to our stockholders.

We have a credit facility, which consists of a \$100.0 million revolving credit facility that matures in May 2018, a \$50.0 million term loan that matures in May 2019, a \$50.0 million term loan that matures in May 2021 and a \$100.0 million term loan that matures in March 2020. We also have \$100.0 million of senior unsecured notes outstanding. We have agreed to guarantee the obligations of the borrower (a wholly-owned subsidiary) under our revolving credit facility, our term loans and our senior unsecured notes. Our revolving credit facility, our term loans, our senior unsecured notes and certain of our existing mortgage loans payable contain, and we expect that our future indebtedness will contain, financial and operating covenants, such as fixed charge coverage and debt ratios and other limitations that will limit or restrict our ability to make distributions or other payments to our stockholders and may restrict our investment activities. For example, our credit facility restricts distributions if we are in default and otherwise limits our fiscal year distributions to 95% of our funds from operations. The covenants in our debt agreements may restrict our ability to engage in transactions that we believe would otherwise be in the best interests of our stockholders or obtain necessary funds. Given the restrictions in our debt covenants on these and other activities, we may be limited in our operating and financial flexibility and in our ability to respond to changes in our business or competitive activities in the future.

Failure to meet our financial covenants could result from, among other things, changes in our results of operations, the incurrence of debt or changes in general economic conditions. In addition, the failure of at least one of our chief executive officer and our president or any successors approved by the administrative agent to continue to be active in our day-to-day management constitutes an event of default under our credit facility. We

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have 120 days under our credit facility to hire a successor executive reasonably satisfactory to the administrative agent in the event that both our chief executive officer and our president or any successors cease to be active in our management. If we violate covenants or if there is an event of default under our credit facility, our senior unsecured notes, our existing mortgage loans payable or in our future agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all which may have a material adverse effect on our cash flows, financial condition and results of operations.

In addition, the note purchase agreement with respect to our existing senior unsecured notes contains, and any unsecured debt agreements we enter into in the future may contain, specific cross-default provisions with respect to specified other indebtedness, giving the unsecured lenders the right to declare a default if we are in default under other loans in some circumstances. Defaults under our debt agreements could materially and adversely affect our financial condition and results of operations.

We may acquire outstanding debt secured by an industrial property, which may expose us to risks.

We may acquire outstanding debt secured by an industrial property from lenders and investors if we believe we can acquire ownership of the underlying property in the near-term through foreclosure, deed-in-lieu of foreclosure or other means. However, if we do acquire such debt, borrowers may seek to assert various defenses to our foreclosure or other actions and we may not be successful in acquiring the underlying property on a timely basis, or at all, in which event we could incur significant costs and experience significant delays in acquiring such properties, all of which could adversely affect our financial performance and reduce our expected returns from such investments. In addition, we may not earn a current return on such investments particularly if the loan that we acquire is in default.

Adverse changes in our credit rating could negatively affect our financing activity.

During 2015, Fitch Ratings assigned us an initial issuer rating of BBB- with a stable outlook. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Our credit rating can affect the amount of capital we can access, as well as the terms and pricing of any debt we may incur. There can be no assurance that we will be able to maintain our current credit rating, and in the event our credit rating is downgraded, we would likely incur higher borrowing costs and may encounter difficulty in obtaining additional financing. Also, a downgrade in our credit rating may trigger additional payments or other negative consequences under our existing and future credit facilities and debt instruments. For example, if our credit rating is downgraded to below investment grade levels, we may not be able to obtain or maintain extensions on certain of our existing debt. Adverse changes in our credit rating could negatively impact our refinancing activities, our ability to manage our debt maturities, our future growth, our financial condition, the market price of our stock and our acquisition activities.

Failure to hedge effectively against interest rate changes may adversely affect results of operations.

We may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements, such as cap contracts and swap agreements. For example, we have executed interest rate caps to hedge the variable cash flows associated with \$150.0 million of our existing \$200.0 million variable-rate term loans. These agreements have costs and involve the risks that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such agreements are not legally enforceable. Hedging may reduce overall returns on our investments. Failure to hedge effectively against interest rate changes may materially adversely affect our results of operations.

Our property taxes could increase due to property tax rate changes or reassessment, which would impact our cash flows.

Even if we qualify as a REIT for federal income tax purposes, we will be required to pay some state and local taxes on our properties. The real property taxes on our properties may increase as property tax rates change or as our properties are assessed or reassessed by taxing authorities. Therefore, the amount of property taxes we pay in the future may increase substantially. If the property taxes we pay increase, our cash flows will be impacted, and our ability to pay expected distributions to our stockholders could be adversely affected.

Actions of our joint venture partners could negatively impact our performance.

We may acquire and/or redevelop properties through joint ventures, limited liability companies and partnerships with other persons or entities when warranted by the circumstances. Such partners may share certain approval rights over major decisions. Such investments may involve risks not otherwise present with other methods of investment in real estate. We generally will seek to maintain sufficient control of our partnerships, limited liability companies and joint ventures to permit us to achieve our business objectives; however, we may not be able to do so, and the occurrence of one or more of the events described above could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock and our preferred stock.

If we invest in a limited partnership as a general partner, we could be responsible for all liabilities of such partnership.

In some joint ventures or other investments we may make, if the entity in which we invest is a limited partnership, we may acquire all or a portion of our interest in such partnership as a general partner. As a general partner, we could be liable for all the liabilities of such partnership. Additionally, we may be required to take our interests in other investments as a non-managing general partner. Consequently, we would be potentially liable for all such liabilities without having the same rights of management or control over the operation of the partnership as the managing general partner or partners may have. Therefore, we may be held responsible for all of the liabilities of an entity in which we do not have full management rights or control, and our liability may far exceed the amount or value of the investment we initially made or then had in the partnership.

The conflict of interest policies we have adopted may not adequately address all of the conflicts of interest that may arise with respect to our activities.

In order to avoid any actual or perceived conflicts of interest with our directors, officers or employees, we have adopted certain policies to specifically address some of the potential conflicts relating to our activities. In addition, our board of directors is subject to certain provisions of Maryland law, which are also designed to eliminate or minimize conflicts. Although under these policies the approval of a majority of our disinterested directors is required to approve any transaction, agreement or relationship in which any of our directors, officers or employees has an interest, there is no assurance that these policies will be adequate to address all of the conflicts that may arise or will address such conflicts in a manner that is favorable to us.

Our business could be adversely impacted if we have deficiencies in our disclosure controls and procedures or internal controls over financial reporting.

The design and effectiveness of our disclosure controls and procedures and internal controls over financial reporting may not prevent all errors, misstatements or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, there can be no guarantee that our internal controls over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal controls over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in our stock price, or otherwise materially adversely affect our business, reputation, results of operations, financial condition or liquidity.

Volatility in the capital and credit markets could materially and adversely impact us.

The capital and credit markets have experienced extreme volatility and disruption in recent years, which has at times made it more difficult to borrow money or raise equity capital. Market volatility and disruption could hinder our ability to obtain new debt financing or refinance our maturing debt on favorable terms or at all. In addition, our future access to the equity markets could be limited. Any such financing or refinancing issues could materially and adversely affect us. Market turmoil and tightening of credit which have occurred in recent years, can lead to an increased lack of consumer confidence and widespread reduction of business activity generally, which also could materially and adversely impact us, including our ability to acquire and dispose of assets on favorable terms or at all. Volatility in capital and credit markets may also have a material adverse effect on the market price of our common stock and preferred stock.

We may not acquire or sell the industrial properties that we have entered into agreements to acquire or sell or with respect to which we have entered into non-binding letters of intent.

We have entered into agreements with third-party sellers to acquire four properties, one non-binding letter of intent with a third-party seller to acquire one industrial property and two outstanding contracts with third-party purchasers to sell two properties as more fully described under the heading “Contractual Obligations” in this Annual Report on Form 10-K. There is no assurance that we will acquire or sell the properties under contract or non-binding letter of intent because the proposed acquisitions and dispositions are subject to the completion of satisfactory due diligence and various closing conditions, and, in addition, with respect to the property under non-binding letter of intent, our entry into a purchase and sale agreement. There is no assurance that such proposed acquisitions and dispositions, if completed, will be completed on the timeframe we expect. If we do not complete the acquisition or disposition of the properties under contract and letter of intent, we will have incurred expenses without our stockholders realizing any benefit from the acquisition or disposition of such properties.

We face risks associated with security breaches through cyber-attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems.

We face risks associated with security breaches, whether through cyber-attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, people with access or who gain access to our systems and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber-attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations and, in some cases, may be critical to the operations of certain of our tenants. Although we make efforts to maintain the security and integrity of our IT networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed to not be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures.

A security breach or other significant disruption involving our IT networks and related systems could significantly disrupt the proper functioning of our networks and systems and significantly disrupt our operations, which could ultimately have a material adverse effect on our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock and our preferred stock.

Risks Related to the Real Estate Industry

Our performance and value are subject to general economic conditions and risks associated with our real estate assets.

The investment returns available from equity investments in real estate depend on the amount of income earned and capital appreciation generated by the properties, as well as the expenses incurred in connection with the properties. If our properties do not generate income sufficient to meet operating expenses, including debt service and capital expenditures, then our ability to pay distributions to our stockholders could be adversely affected. In addition, there are significant expenditures associated with an investment in real estate (such as mortgage payments, real estate taxes and maintenance costs) that generally do not decline when circumstances reduce the income from the property. Income from and the value of our properties may be adversely affected by:

- downturns in national, regional and local economic conditions (particularly increases in unemployment);
- the attractiveness of our properties to potential tenants and competition from other industrial properties;
- changes in supply of or demand for similar or competing properties in an area;
- bankruptcies, financial difficulties or lease defaults by the tenants of our properties;
- adverse capital and credit market conditions, which may restrict our operating activities;
- changes in interest rates, availability and terms of debt financing;
- changes in operating costs and expenses and our ability to control rents;
- changes in, or increased costs of compliance with, governmental rules, regulations and fiscal policies, including changes in tax, real estate, environmental and zoning laws, and our potential liability thereunder;
- our ability to provide adequate maintenance and insurance;
- changes in the cost or availability of insurance, including coverage for mold or asbestos;
- unanticipated changes in costs associated with known adverse environmental conditions or retained liabilities for such conditions;
- periods of high interest rates;
- tenant turnover;
- re-leasing that may require concessions or reduced rental rates under the new leases due to reduced demand;
- general overbuilding or excess supply in the market area;
- disruptions in the global supply chain caused by political, regulatory or other factors including terrorism; and
- the effects of deflation, including credit market dislocation, weakened consumer demand and a decline in general price levels.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or public perception that any of these events may occur, would result in a general decrease in rents or an increased occurrence of defaults under existing leases, which would adversely affect our financial condition and results of operations. Future terrorist attacks may result in declining economic activity, which could reduce the demand for, and the value of, our properties. To the extent that future attacks impact the tenants of our properties, their businesses similarly could be adversely affected, including their ability to continue to honor their existing leases. For these and other reasons, we cannot assure our stockholders that we will be profitable or that we will realize growth in the value of our real estate properties.

Actions by our competitors may decrease or prevent increases in the occupancy and rental rates of our properties.

We compete with other developers, owners and operators of real estate, some of which own properties similar to our properties in the same markets and submarkets in which the properties we own are located. If our competitors offer space at rental rates below current market rates or below the rental rates we will charge the tenants of our properties, we may lose existing or potential tenants, and we may be pressured to reduce our rental rates or offer tenant concessions or favorable lease terms in order to retain tenants when such tenants' leases expire or attract new tenants. In addition, if our competitors sell assets similar to assets we intend to divest in the same markets and/or at valuations below our valuations for comparable assets, we may be unable to divest our assets at all or at favorable pricing or on favorable terms. As a result of these actions by our competitors, our financial condition, cash flows, cash available for distribution, trading price of our common stock and preferred stock and ability to satisfy our debt service obligations could be materially adversely affected.

Real estate investments are not as liquid as other types of assets, which may reduce economic returns to investors.

Real estate investments are not as liquid as other types of investments, and this lack of liquidity may limit our ability to react promptly to changes in economic, financial, investment or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. In addition, we intend to comply with the safe harbor rules relating to the number of properties that can be disposed of in a year, the tax bases and the costs of improvements made to these properties, and meet other tests which enable a REIT to avoid punitive taxation on the sale of assets. Thus, our ability at any time to sell assets or contribute assets to property funds or other entities in which we have an ownership interest may be restricted. This lack of liquidity may limit our ability to vary our portfolio promptly in response to changes in economic, financial, investment or other conditions and, as a result, could adversely affect our financial condition, results of operations, cash flows and our ability to pay distributions on, and the market price of, our common stock and preferred stock.

Uninsured or underinsured losses relating to real property may adversely affect our returns.

We will attempt to ensure that all of our properties are adequately insured to cover casualty losses. However, there are certain losses, including losses from floods, hurricanes, fires, earthquakes and other natural disasters, acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against because it is not deemed economically feasible or prudent to do so. In addition, changes in the cost or availability of insurance could expose us to uninsured casualty losses. In the event that any of our properties incurs a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by the amount of any such uninsured loss, and we could experience a significant loss of capital invested and potential revenues in these properties and could potentially remain obligated under any recourse debt associated with the property. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a property after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed property. Any such losses could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock. In addition, we may have no source of funding to repair or reconstruct the damaged property, and we cannot assure that any such sources of funding will be available to us for such purposes in the future.

We own properties in Los Angeles, the San Francisco Bay Area and Seattle, which are located in areas that are known to be subject to earthquake activity. Although we carry replacement-cost earthquake insurance on all of our properties located in areas historically subject to seismic activity, subject to coverage limitations and deductibles that we believe are commercially reasonable, we may not be able to obtain coverage to cover all

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losses with respect to such properties on economically favorable terms, which could expose us to uninsured casualty losses. We intend to evaluate our earthquake insurance coverage annually in light of current industry practice.

We own properties located in areas which are known to be subject to hurricane and/or flood risk. Although we carry replacement-cost hurricane and/or flood hazard insurance on all of our properties located in areas historically subject to such activity, subject to coverage limitations and deductibles that we believe are commercially reasonable, we may not be able to obtain coverage to cover all losses with respect to such properties on economically favorable terms, which could expose us to uninsured casualty losses. We intend to evaluate our insurance coverage annually in light of current industry practice.

Contingent or unknown liabilities could adversely affect our financial condition.

We may own or acquire properties that are subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were asserted against us based upon ownership of any of these entities or properties, then we might have to pay substantial sums to settle it, which could adversely affect our cash flows. Unknown liabilities with respect to entities or properties acquired might include:

- liabilities for clean-up or remediation of adverse environmental conditions;
- accrued but unpaid liabilities incurred in the ordinary course of business;
- tax liabilities; and
- claims for indemnification by the general partners, officers and directors and others indemnified by the former owners of the properties.

We may from time to time be subject to litigation that may negatively impact our cash flow, financial condition, results of operations and market price of our common stock.

We may from time to time be a defendant in lawsuits and regulatory proceedings relating to our business. Such litigation and proceedings may result in defense costs, settlements, fines or judgments against us, some of which may not be covered by insurance. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such litigation or proceedings. An unfavorable outcome could negatively impact our cash flow, financial condition, results of operations and trading price of our common stock.

Environmentally hazardous conditions may adversely affect our operating results.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of removing or remediating hazardous or toxic substances on such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Even if more than one person may have been responsible for the contamination, each person covered by applicable environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages based on personal injury, natural resource or property damage or other costs, including investigation and clean-up costs, resulting from the environmental contamination. The presence of hazardous or toxic substances on one of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination, or otherwise adversely affect our ability to sell or lease the property or borrow using the property as collateral. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated. A property owner who violates environmental laws may be subject to sanctions which may be enforced by governmental agencies or, in certain circumstances, private parties. In connection with the acquisition and ownership of our properties, we may be

exposed to such costs. The cost of defending against environmental claims, of compliance with environmental regulatory requirements or of remediating any contaminated property could materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to our stockholders.

Environmental laws in the U.S. also require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, adequately inform or train those who may come into contact with asbestos and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos. Some of our properties may contain asbestos-containing building materials.

We invest in properties historically used for industrial, manufacturing and commercial purposes. Some of these properties contain, or may have contained, underground storage tanks for the storage of petroleum products and other hazardous or toxic substances. All of these operations create a potential for the release of petroleum products or other hazardous or toxic substances. Some of our properties may be adjacent to or near other properties that have contained or currently contain underground storage tanks used to store petroleum products or other hazardous or toxic substances. In addition, certain of our properties may be on or are adjacent to or near other properties upon which others, including former owners or tenants of such properties, have engaged, or may in the future engage, in activities that may release petroleum products or other hazardous or toxic substances. As needed, we may obtain environmental insurance policies on commercially reasonable terms that provide coverage for potential environmental liabilities, subject to the policy's coverage conditions and limitations. From time to time, we may acquire properties, or interests in properties, with known adverse environmental conditions where we believe that the environmental liabilities associated with these conditions are quantifiable and that the acquisition will yield a superior risk-adjusted return. In such an instance, we underwrite the costs of environmental investigation, clean-up and monitoring into the cost. Further, in connection with property dispositions, we may agree to remain responsible for, and to bear the cost of, remediating or monitoring certain environmental conditions on the properties.

We generally obtain Phase I environmental site assessments on each property prior to acquiring it and we generally anticipate that the properties that we may acquire in the future may be subject to a Phase I or similar environmental assessment by independent environmental consultants at the time of acquisition. Phase I assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. Phase I assessments generally include a historical review, a public records review, an investigation of the surveyed site and surrounding properties, and preparation and issuance of a written report, but do not include soil sampling or subsurface investigations and typically do not include an asbestos survey. Even if none of our environmental assessments of our properties reveal an environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations taken as a whole, we cannot give any assurance that such conditions do not exist or may not arise in the future. Material environmental conditions, liabilities or compliance concerns may arise after the environmental assessment has been completed. Moreover, there can be no assurance that (i) future laws, ordinances or regulations will not impose any material environmental liability or (ii) the environmental condition of our properties will not be affected by tenants, by the condition of land or operations in the vicinity of such properties (such as releases from underground storage tanks), or by third parties unrelated to us.

Costs of complying with governmental laws and regulations with respect to our properties may adversely affect our income and the cash available for any distributions.

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Tenants' ability to operate and to generate income to pay their lease obligations may be affected by permitting and compliance obligations arising under such laws and regulations. Some of these laws and regulations may impose joint and several liability on tenants, owners or operators for the costs to investigate or remediate contaminated properties,

regardless of fault or whether the acts causing the contamination were legal. Leasing our properties to tenants that engage in industrial, manufacturing, and commercial activities will cause us to be subject to the risk of liabilities under environmental laws and regulations. In addition, the presence of hazardous or toxic substances, or the failure to properly remediate these substances, may adversely affect our ability to sell, rent or pledge such property as collateral for future borrowings.

Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require us to incur material expenditures. Future laws, ordinances or regulations may impose material environmental liability. Additionally, the operations of the tenants of our properties, the existing condition of the land, operations in the vicinity of such properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect such properties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply and which may subject us to liability in the form of fines or damages for noncompliance. Any material expenditures, fines or damages we must pay will reduce our ability to make distributions and may reduce the value of our common stock. In addition, changes in these laws and governmental regulations, or their interpretation by agencies or the courts, could occur.

The impacts of climate-related initiatives at the U.S. federal and state levels remain uncertain at this time but could result in increased operating costs.

Government authorities and various interest groups are promoting laws and regulations that could limit greenhouse gas, or GHG, emissions due to concerns over contributions to climate change. The United States Environmental Protection Agency, or EPA, is moving to regulate GHG emissions from large stationary sources, including electricity producers, and mobile sources, through fuel efficiency and other requirements, using its existing authority under the Clean Air Act. Moreover, certain state and regional programs are being implemented to require reductions in GHG emissions. Any additional taxation or regulation of energy use, including as a result of (i) the regulations that EPA has proposed or may propose in the future, (ii) state programs and regulations, or (iii) renewed GHG legislative efforts by future Congresses, could result in increased operating costs that we may not be able to effectively pass on to our tenants. In addition, any increased regulation of GHG emissions could impose substantial costs on our tenants. These costs include, for example, an increase in the cost of the fuel and other energy purchased by our tenants and capital costs associated with updating or replacing their trucks earlier than planned. Any such increased costs could impact the financial condition of our tenants and their ability to meet their lease obligations and to lease or re-lease our properties.

We are exposed to the potential impacts of future climate change and climate-change related risks.

We may be exposed to potential physical risks from possible future changes in climate. Our properties may be exposed to rare catastrophic weather events, such as severe storms or floods. If the frequency of extreme weather events increases due to climate change, our exposure to these events could increase.

Compliance or failure to comply with the Americans with Disabilities Act and other similar regulations could result in substantial costs.

Under the Americans with Disabilities Act, places of public accommodation must meet certain federal requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If we are required to make unanticipated expenditures to comply with the Americans with Disabilities Act, including removing access barriers, then our cash flows and the amounts available for distributions to our stockholders may be adversely affected. If we are required to make substantial modifications to our properties, whether to comply with the Americans with Disabilities Act or other changes in governmental rules and regulations, our financial condition, cash flows, results of operations, the market price of our shares of common stock and preferred stock and our ability to make distributions to our stockholders could be adversely affected.

We may be unable to sell a property if or when we decide to do so, including as a result of uncertain market conditions, which could adversely affect the return on an investment in our common stock and our preferred stock.

We expect to hold the various real properties in which we invest until such time as we decide that a sale or other disposition is appropriate given our investment objectives. Our ability to dispose of properties on advantageous terms or at all depends on factors beyond our control, including competition from other sellers and the availability of attractive financing for potential buyers of our properties. We cannot predict the various market conditions affecting real estate investments which will exist at any particular time in the future. Due to the uncertainty of market conditions which may affect the future disposition of our properties, we cannot assure our stockholders that we will be able to sell such properties at a profit or at all in the future. Accordingly, the extent to which our stockholders will receive cash distributions and realize potential appreciation on our real estate investments will be dependent upon fluctuating market conditions.

Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure our stockholders that we will have funds available to correct such defects or to make such improvements. In acquiring a property, we may agree to restrictions that prohibit the sale of that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These provisions would restrict our ability to sell a property.

If we sell properties and provide financing to purchasers, defaults by the purchasers would adversely affect our cash flows.

If we decide to sell any of our properties, we presently intend to sell them for cash. However, if we provide financing to purchasers, we will bear the risk that the purchaser may default, which could negatively impact our cash distributions to stockholders and result in litigation and related expenses. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced or otherwise disposed of.

Risks Related to Our Organizational Structure

Our board of directors may change significant corporate policies without stockholder approval.

Our investment, financing, borrowing and distribution policies and our policies with respect to all other activities, including growth, debt, capitalization and operations, are determined by our board of directors. These policies may be amended or revised at any time and from time to time at the discretion of the board of directors without a vote of our stockholders. In addition, the board of directors may change our policies with respect to conflicts of interest provided that such changes are consistent with applicable legal and regulatory requirements, including the listing standards of the NYSE. A change in these policies could have an adverse effect on our financial condition, results of operations, cash flows, per share trading price of our common stock and preferred stock and ability to satisfy our debt service obligations and to pay distributions to our stockholders.

We could increase the number of authorized shares of stock and issue stock without stockholder approval.

Subject to applicable legal and regulatory requirements, our charter authorizes our board of directors, without stockholder approval, to increase the aggregate number of authorized shares of stock or the number of authorized shares of stock of any class or series, to issue authorized but unissued shares of our common stock or preferred stock and to classify or reclassify any unissued shares of our common stock or preferred stock and to set the preferences, rights and other terms of such classified or unclassified shares. Our board of directors could establish a series of preferred stock that could, depending on the terms of such series, delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law, or MGCL, may have the effect of inhibiting or deterring a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- “*Business Combination*” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of our then outstanding voting shares) or an affiliate of an interested stockholder for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter may impose special appraisal rights and special stockholder voting requirements on these combinations; and
- “*Control Share*” provisions that provide that “control shares” of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We have opted out of these provisions of the MGCL, in the case of the business combination provisions of the MGCL by resolution of our board of directors, and in the case of the control share provisions of the MGCL pursuant to a provision in our bylaws. However, in the future, only upon the approval of our stockholders, our board of directors may by resolution elect to opt in to the business combination provisions of the MGCL and we may, only upon the approval of our stockholders, by amendment to our bylaws, opt in to the control share provisions of the MGCL.

In addition, the provisions of our charter on removal of directors and the advance notice provisions of our bylaws could delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest. Likewise, if our company’s board of directors were to opt in to the business combination provisions of the MGCL or the provisions of Title 3, Subtitle 8 of the MGCL, or if the provision in our bylaws opting out of the control share acquisition provisions of the MGCL were rescinded by our board of directors and our stockholders, these provisions of the MGCL could have similar anti-takeover effects.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that a director or officer has no liability in that capacity if he or she satisfies his or her duties to us and our stockholders. Our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

In addition, our charter will authorize us to obligate our company, and our bylaws will require us, to indemnify our directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist. Accordingly, in the event that actions taken in good faith by any of our directors or officers impede the performance of our company, your ability to recover damages from such director or officer will be limited. In addition, we may be obligated to advance the defense costs incurred by our directors and executive officers, and may, in the discretion of our board of directors, advance the defense costs incurred by our employees and other agents in connection with legal proceedings.

Risks Related to Our Status as a REIT

Failure to qualify as a REIT would cause us to be taxed as a regular corporation, which would substantially reduce funds available for distributions to stockholders.

We believe that our organization and method of operation has enabled and will continue to enable us to meet the requirements for qualification and taxation as a REIT. However, we cannot assure you that we will qualify as such. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Code as to which there are only limited judicial and administrative interpretations and involves the determination of facts and circumstances not entirely within our control. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for federal income tax purposes or the federal income tax consequences of such qualification.

If we fail to qualify as a REIT in any taxable year we will face serious tax consequences that will substantially reduce the funds available for distributions to our stockholders because:

- we would not be allowed a deduction for distributions paid to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;
- we could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and
- unless we are entitled to relief under statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

In addition, if we fail to qualify as a REIT, we will no longer be required to pay distributions. As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and it could adversely affect the value of our common stock.

Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flows.

Even if we qualify for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. Any of these taxes would decrease cash available for distributions to stockholders.

REIT distribution requirements could adversely affect our liquidity and may force us to borrow funds or sell assets during unfavorable market conditions.

In order to maintain our REIT status and to meet the REIT distribution requirements, we may need to borrow funds on a short-term basis or sell assets, even if the then-prevailing market conditions are not favorable for these borrowings or sales. To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding capital gains. In addition, we will be subject to corporate income tax to the extent we distribute less than 100% of our net taxable income including any net capital gain. We intend to make distributions to our stockholders to comply with the requirements of the Code for REITs and to minimize or eliminate our corporate income tax obligation to the extent consistent with our business objectives. Our cash flows from operations may be insufficient to fund required distributions as a result of differences in timing between the actual receipt of income and the recognition of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt service or amortization payments. The insufficiency of our cash flows to cover our distribution requirements could have an adverse impact on our ability to raise short- and long-term debt or sell equity securities in order to fund distributions required to maintain our REIT status. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.

Dividends payable by REITs generally do not qualify for reduced tax rates.

Currently, the maximum tax rate for qualified dividends payable to individual U.S. stockholders is 20%. Dividends payable by REITs, however, are generally not eligible for such reduced rates. However, to the extent such dividends are attributable to certain dividends that we receive from a taxable REIT subsidiary (“TRS”), such dividends generally will be eligible for the reduced rates that apply to qualified dividend income. While we currently do not own any interest in a TRS, we may own any such interest in the future. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

We may in the future choose to pay dividends in our stock instead of cash, in which case stockholders may be required to pay income taxes in excess of the cash dividends they receive.

We may, in the future, distribute taxable dividends that are payable in cash and common stock at the election of each stockholder or distribute other forms of taxable stock dividends. Taxable stockholders receiving such dividends or other forms of taxable stock dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities or to liquidate otherwise attractive investments.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our capital stock. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our performance.

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investments in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the total voting power of the outstanding securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% (20% for tax years beginning after December 31, 2017, in accordance with the PATH Act discussed above) of the value of our total assets can be represented by the securities of one or more taxable REIT subsidiaries, or TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

Our relationship with any TRS will be limited, and a failure to comply with the limits would jeopardize our REIT qualification and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. While we currently do not own any interest in a TRS, we may own any such interest in the future. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Overall, no more than 25% (20% for tax years beginning after December 31, 2017) of the value of a REIT's assets may consist of stock or securities of one or more TRSs. A domestic TRS will pay federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Any TRS of ours will pay federal, state and local income tax on its taxable income, and its after-tax net income will be available (but not required) to be distributed to us. We anticipate that the aggregate value of any TRS stock and securities owned by us will be significantly less than 25% (20% for tax years beginning after December 31, 2017) of the value of our total assets (including the TRS stock and securities). Furthermore, we will monitor the value of our investments in TRSs for the purpose of ensuring compliance with the rule that no more than 25% (20% for tax years beginning after December 31, 2017) of the value of our assets may consist of TRS stock and securities (which is applied at the end of each calendar quarter). In addition, we will scrutinize all of our transactions with TRSs for the purpose of ensuring that they are entered into on arm's-length terms in order to avoid incurring the 100% excise tax described above. No assurance, however, can be given that we will be able to comply with the 25% (20% for tax years beginning after December 31, 2017) limitation on ownership of TRS stock and securities on an ongoing basis so as to maintain our REIT qualification or avoid application of the 100% excise tax imposed on certain non-arm's-length transactions.

The ability of our board of directors to revoke our REIT qualification without stockholder approval may subject us to federal income tax and reduce distributions to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to be qualified as a REIT. If we cease to be a REIT, we would become subject to federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on our total return to our stockholders and on the market price of our common stock.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock and preferred stock.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new federal income tax law, regulation, or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

Risks Related to Our Common Stock and Our Preferred Stock

Level of cash distributions, market interest rates and other factors may affect the value of our common stock and our preferred stock.

The market value of the equity securities of a REIT is based upon the market's perception of the REIT's growth potential and its current and potential future cash distributions, whether from operations, sales or refinancings, and upon the real estate market value of the underlying assets. Our common stock may trade at prices that are higher or lower than our net asset value per share. To the extent we retain operating cash flows for

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investment purposes, working capital reserves or other purposes, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of our common stock. Our failure to meet the market's expectations with regard to future earnings and cash distributions likely would adversely affect the market price of our common stock. In addition, the price of our common stock and our preferred stock will be influenced by the dividend yield on the common stock and preferred stock relative to market interest rates and the dividend yields of other REITs. An increase in market interest rates, which are currently at low levels relative to historical rates, could cause the market price of our common stock or our preferred stock to go down. The trading price of the shares of common stock and preferred stock will also depend on many other factors, which may change from time to time, including:

- the market for similar securities;
- the attractiveness of REIT securities in comparison to the securities of other companies, taking into account, among other things, the higher tax rates imposed on dividends paid by REITs;
- government action or regulation;
- our issuance of debt or preferred equity securities;
- changes in earnings estimates by analysts and our ability to meet analysts' earnings estimates;
- general economic conditions; and
- our financial condition, performance and prospects.

The number of shares of our common stock available for future sale could adversely affect the market price of our common stock and our preferred stock and have a dilutive effect to our existing stockholders.

Sales of substantial amounts of shares of our common stock and preferred stock in the public market or the perception that such sales might occur could adversely affect the market price of the shares of our common stock and preferred stock, respectively. The issuance and vesting of any restricted stock granted to certain directors, executive officers and other employees under our Amended and Restated 2010 Equity Incentive Plan, the issuance of our common stock upon the vesting of awards under our Amended and Restated Long-Term Incentive Plan, the issuance of our common stock in connection with property, portfolio or business acquisitions and other issuances of our common stock and preferred stock could have an adverse effect on the market price of our common stock and preferred stock. Future sales of shares of our common stock or preferred stock may be dilutive to existing stockholders.

The market price and trading volume of our common stock and preferred stock may be volatile.

The market price of our common stock and preferred stock may be volatile. In addition, the trading volume in our common stock and preferred stock may fluctuate and cause significant price variations to occur. If the market price of our common stock or preferred stock declines significantly, you may be unable to resell your shares at or above the price you paid for such shares. We cannot assure you that the market price of our common stock or preferred stock will not fluctuate or decline significantly in the future.

Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock and preferred stock include:

- our financial condition, performance, liquidity and prospects;
- actual or anticipated variations in our quarterly operating results or distributions;
- changes in our funds from operations (as defined by NAREIT and discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" elsewhere in this Annual Report on Form 10-K) or earnings;
- publication of research reports about us or the real estate industry;
- changes in earnings estimates by analysts;

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- our ability to meet analysts' earnings estimates;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any additional debt we incur in the future;
- additions or departures of key management personnel;
- the market for similar securities issued by REITs;
- actions by institutional stockholders;
- speculation in the press or investment community;
- our compliance with generally accepted accounting principles;
- our compliance with applicable laws and regulations and the listing requirements of the New York Stock Exchange;
- the realization of any of the other risk factors presented in this Annual Report on Form 10-K; and
- general market, including capital market and real estate market, and economic conditions.

Future offerings of debt securities and the incurrence of other future indebtedness, which would be senior to our common stock and preferred stock upon liquidation, and/or preferred stock which may be senior to our common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our common stock or preferred stock, as applicable.

Upon liquidation, holders of our debt securities and shares of preferred stock, including our Series A Preferred Stock, and lenders with respect to other borrowings, including our existing credit facility and mortgage loans payable, will receive distributions of our available assets prior to the holders of our common stock. In addition, holders of our debt securities and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our Series A Preferred Stock. In the future we may attempt to increase our capital resources by making additional offerings of debt and equity securities. Additional equity offerings may dilute the holdings of our existing stockholders and/or reduce the market price of our common stock and/or our preferred stock. In addition, future offerings of debt securities or the incurrence of additional other indebtedness may reduce the market price of our common and/or our preferred stock. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Our preferred stock has a preference on liquidating distributions and a preference on dividend payments that could limit our ability to pay a dividend or make another distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock or preferred stock and diluting their stock holdings in us.

We may be unable to generate sufficient cash flows from our operations to make distributions to our stockholders at any time in the future.

Our ability to make distributions to our stockholders may be adversely affected by the risk factors described in this Annual Report on Form 10-K. We may not generate sufficient income to make distributions to our stockholders. Our board of directors has the sole discretion to determine the timing, form and amount of any distributions to our stockholders. Our board of directors will make determinations regarding distributions based upon, among other factors, our financial performance, any debt service obligations, any debt covenants, and capital expenditure requirements. Among the factors that could impair our ability to make distributions to our stockholders are:

- our inability to realize attractive risk-adjusted returns on our investments;
- unanticipated expenses or reduced revenues that reduce our cash flow or non-cash earnings;

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- our debt service obligations; and
- decreases in the value of our industrial properties that we own.

As a result, no assurance can be given that we will be able to make distributions to our stockholders at any time in the future or that the level of any distributions we do make to our stockholders will increase or even be maintained over time, any of which could materially and adversely affect the market price of our shares of common stock and preferred stock.

Our shares of common stock rank junior to our Series A Preferred Stock.

Our shares of common stock rank junior to our Series A Preferred Stock with respect to dividends and upon liquidation, dissolution or winding up, which could limit or restrict our ability to make distributions on our common stock. In certain circumstances, following a change of control of our company, holders of our Series A Preferred Stock will be entitled to convert their shares of Series A Preferred Stock into a specified number of shares of common stock, subject to our option to redeem the Series A Preferred Stock for cash at \$25.00 per share plus accrued and unpaid dividends. Holders of our shares of common stock are not entitled to preemptive rights or other protections against dilution. We may in the future attempt to increase our capital resources by making additional offerings of equity securities, including additional classes or series of preferred stock, which would likely have preferences with respect to dividends or upon dissolution that are senior to our shares of common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors, many of which are beyond our control, we cannot predict or estimate the amount, timing or nature of any future offerings. Thus, our common stockholders bear the risk of our future offerings reducing the market price of our shares of common stock and diluting their interest in us.

The change of control conversion feature of the Series A Preferred Stock may make it more difficult for a party to take over our company or discourage a party from taking over our company.

Upon the occurrence of a change of control (as defined in the Articles Supplementary for the Series A Preferred Stock) the result of which our common stock or the common securities of the acquiring or surviving entity are not listed on the NYSE, NYSE Amex or NASDAQ, holders of the Series A Preferred Stock will have the right (unless, prior to the change of control conversion date, we have provided or provide notice of our election to redeem the Series A Preferred Stock) to convert some or all of their Series A Preferred Stock into shares of our common stock (or equivalent value of alternative consideration). Upon such a conversion, the holders will be limited to a maximum number of shares of our common stock equal to the share cap of 3.2446 multiplied by the number of shares of Series A Preferred Stock converted. The change of control conversion feature of the Series A Preferred Stock may have the effect of discouraging a third party from making an acquisition proposal for our company or of delaying, deferring or preventing certain change of control transactions of our company under circumstances that stockholders may otherwise believe are in their best interests.

Our ability to pay dividends is limited by the requirements of Maryland law.

Our ability to pay dividends on our stock is limited by the laws of the State of Maryland. Under applicable Maryland law, a Maryland corporation generally may not make a distribution if, after giving effect to the distribution, the corporation would not be able to pay its debts as the debts become due in the usual course of business, or the corporation's total assets would be less than the sum of its total liabilities plus, unless the corporation's charter provides otherwise, the amount that would be needed, if the corporation were dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution. Accordingly, we generally may not make a distribution on our stock if, after giving effect to the distribution, we would not be able to pay our debts as they become due in the usual course of business or our total assets would be less than the sum of our total liabilities plus, unless the terms of such class or series provide otherwise, the amount that would be needed to satisfy the preferential rights upon dissolution of the holders of shares of any class or series of preferred stock then outstanding, if any, with preferences senior to those of our outstanding stock.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

As of December 31, 2015, we owned 148 buildings (including one building held for sale) aggregating approximately 11.1 million square feet, one redevelopment property expected to contain approximately 0.2 million square feet and two improved land parcels consisting of 3.5 acres. The properties are located in Los Angeles; Northern New Jersey/New York City; San Francisco Bay Area; Seattle; Miami; and Washington, D.C./Baltimore. As of December 31, 2015, our properties were approximately 91.5% leased to 352 customers, the largest of which accounted for approximately 4.4% of our total annualized base rent. We own several types of industrial real estate, including warehouse/distribution (approximately 92.2% of our total portfolio square footage as of December 31, 2015), flex (including light industrial and R&D) (approximately 6.3%) and trans-shipment (approximately 1.5%). See “Our Investment Strategy – Industrial Facility General Characteristics” in this Annual Report on Form 10-K for a general description of these types of industrial real estate. We target functional buildings in infill locations that may be shared by multiple tenants and that cater to customer demand within the various submarkets in which we operate. See our “Consolidated Financial Statements, Schedule III-Real Estate Investments and Accumulated Depreciation” in this Annual Report on Form 10-K, for a detailed listing of our properties.

The following table summarizes by market our investments in real estate as of December 31, 2015:

Market	Number of Buildings	Rentable Square Feet	% of Total	Occupancy % as of December 31, 2015	Annualized Base Rent (000's) ¹	% of Total	Annualized Base Rent Per Occupied Square Foot	Weighted Average Remaining Lease Term (Years) ²	Gross Book Value (000's) ⁴
Los Angeles	14	1,348,802	12.2%	99.0%	\$ 10,574	13.5%	\$ 7.92	2.4	\$ 172,616 ⁵
Northern New Jersey/New York City	43	2,733,068	24.7%	81.3%	18,536	23.8%	8.34	4.2	287,598
San Francisco Bay Area ³	24	1,268,799	11.4%	91.5%	11,591	14.9%	9.98	5.7	173,354
Seattle	18	1,398,710	12.6%	99.2%	7,411	9.5%	5.34	2.6	131,759
Miami	25	1,683,978	15.2%	92.8%	11,583	14.8%	7.41	4.3	143,027
Washington, D.C./Baltimore	24	2,647,017	23.9%	93.2%	18,308	23.5%	7.42	3.7	277,823
Total/Weighted Average	148	11,080,374	100.0%	91.5%	\$ 78,003	100.0%	\$ 7.70	3.9	\$1,186,177

¹ Annualized base rent is calculated as monthly base rent per the leases, excluding any partial or full rent abatements, as of December 31, 2015, multiplied by 12.

² Weighted average remaining lease term is calculated by summing the remaining lease term of each lease as of December 31, 2015, weighted by the respective square footage.

³ Includes one property held for sale with a gross book value of approximately \$6.3 million and accumulated depreciation and amortization of approximately \$1.3 million as of December 31, 2015.

⁴ Includes 3.5 acres of improved land as discussed below.

⁵ Includes approximately \$24.9 million related to a redevelopment property that is expected to contain an approximately 210,000 square foot distribution building and an approximately 34,000 square foot office building.

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We also own two improved land parcels totaling approximately 3.5 acres that are 100% leased to two tenants. Such land is used for truck, trailer and container storage and/or car parking. In the future, we may consider redeveloping such land either by expansion of adjacent buildings or the construction of new buildings.

The following table summarizes by market our investments in improved land as of December 31, 2015:

Market	Number of Parcels	Acres	% of Total	Occupancy % as of December 31, 2015	Annualized Base Rent (000's) ¹	% of Total	Annualized Base Rent Per Occupied Square Foot	Weighted Average Remaining Lease Term (Years) ²
Los Angeles	1	1.2	34.3%	100.0%	\$ 146	42.0%	\$ 2.80	1.0
Northern New Jersey/New York City	—	—	0.0%	—	—	0.0%	—	—
San Francisco Bay Area	—	—	0.0%	—	—	0.0%	—	—
Seattle	—	—	0.0%	—	—	0.0%	—	—
Miami	1	2.3	65.7%	100.0%	202	58.0%	2.02	3.4
Washington, D.C./Baltimore	—	—	0.0%	—	—	0.0%	—	—
Total/Weighted Average	2	3.5	100.0%	100.0%	\$ 348	100.0%	\$ 2.29	2.6

¹ Annualized base rent is calculated as monthly base rent per the leases, excluding any partial or full rent abatements, as of December 31, 2015, multiplied by 12.

² Weighted average remaining lease term is calculated by summing the remaining lease term of each lease as of December 31, 2015, weighted by the respective square footage.

The following table summarizes our capital expenditures incurred during the three months and years ended December 31, 2015 and 2014 (dollars in thousands):

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2015	2014	2015	2014
Building improvements	\$3,823	\$1,662	\$11,140	\$ 3,805
Tenant improvements	1,030	1,038	4,248	4,450
Leasing commissions	2,714	1,503	6,092	4,157
Redevelopment and expansion	1,129	1,006	1,835	8,169
Total capital expenditures ¹	\$8,696	\$5,209	\$23,315	\$20,581

¹ Includes approximately \$5.3 million and \$2.8 million for the three months ended December 31, 2015 and 2014, respectively, and approximately \$12.6 million and \$14.9 million for the years ended December 31, 2015 and 2014, respectively, related to leasing acquired vacancy and renovation projects (stabilization capital) at 13 and 11 properties for the three months ended December 31, 2015 and 2014, respectively, and 17 and 7 properties for the years ended December 31, 2015 and 2014, respectively.

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The following table summarizes the anticipated lease expirations for leases in place at December 31, 2015, without giving effect to the exercise of renewal options or termination rights, if any, at or prior to the scheduled expirations:

<u>Year</u>	<u>Rentable Square Feet</u> ¹	<u>% of Total Rentable Square Feet</u>	<u>Annualized Base Rent (000's)</u> ^{1, 2}	<u>% of Total Annualized Base Rent</u> ¹
2016	1,671,678	15.1%	\$ 12,016	13.9%
2017	1,398,067	12.6%	12,384	14.3%
2018	1,331,713	12.0%	11,164	12.9%
2019	1,848,779	16.7%	14,297	16.5%
2020	1,423,686	12.9%	11,790	13.7%
Thereafter	2,462,099	22.2%	24,768	28.7%
Total	<u>10,136,022</u>	<u>91.5%</u>	<u>\$ 86,419</u>	<u>100.0%</u>

¹ Includes leases that expire on or after December 31, 2015 and month-to-month leases totaling 126,808 square feet.

² Annualized base rent is calculated as monthly base rent per the leases at expiration, excluding any partial or full rent abatements, as of December 31, 2015, multiplied by 12.

Our ability to re-lease or renew expiring space at rental rates equal to or in excess of current rental rates will impact our results of operations. As of December 31, 2015, leases representing approximately 15.1% of the total rentable square footage of our portfolio are scheduled to expire during the year ending December 31, 2016. We currently expect that on average, the rental rates we are likely to achieve on any new (re-leased) or renewed leases for our 2016 expirations will generally be above the rates currently being paid for the same space. Our past performance may not be indicative of future results, and we cannot assure you that leases will be renewed or that our properties will be re-leased at all or at rental rates above the current average rental rates. Further, re-leased/renewed rental rates in a particular market may not be consistent with rental rates across our portfolio as a whole and re-leased/renewed rental rates for particular properties within a market may not be consistent with rental rates across our portfolio within a particular market, in each case due to a number of factors, including local real estate conditions, local supply and demand for industrial space, the condition of the property, the impact of leasing incentives, including free rent and tenant improvements and whether the property, or space within the property, has been redeveloped.

Our industrial properties are typically subject to leases on a “triple net basis,” in which tenants pay their proportionate share of real estate taxes, insurance and operating costs, or are subject to leases on a “modified gross basis,” in which tenants pay expenses over certain threshold levels. In addition, approximately 86.0% of our leased space includes fixed rental increases or Consumer Price Index-based rental increases. Lease terms typically range from three to ten years. We monitor the liquidity and creditworthiness of our tenants on an on-going basis by reviewing outstanding accounts receivable balances, and as provided under the respective lease agreements, review the tenant’s financial condition periodically as appropriate. As needed, we hold discussions with the tenant’s management about their business and we conduct site visits of the tenant’s operations.

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Our top 20 customers based on annualized base rent as of December 31, 2015 are as follows:

	<u>Customer</u>	<u>Leases</u>	<u>Rentable Square Feet</u>	<u>% of Total Rentable Square Feet</u>	<u>Annualized Base Rent (000's) ¹</u>	<u>% of Total Annualized Base Rent</u>
1	FedEx Corporation	5	241,783	2.2%	\$ 3,404	4.4%
2	United States Government	9	347,784	3.1%	3,036	3.9%
3	Cepheid	3	171,707	1.6%	2,875	3.7%
4	Northrop Grumman Systems	2	199,866	1.8%	2,229	2.9%
5	H.D. Smith Wholesale Drug Company	1	211,418	1.9%	2,195	2.8%
6	Synergy Custom Fixtures	1	301,983	2.7%	1,434	1.8%
7	West Coast Warehouse	1	265,500	2.4%	1,418	1.8%
8	YRC Worldwide	2	61,252	0.6%	1,318	1.7%
9	District of Columbia	3	148,203	1.3%	1,301	1.7%
10	HD Supply Company	1	138,780	1.3%	1,295	1.7%
11	Miami International Freight Solutions	1	192,454	1.7%	1,209	1.5%
12	Avborne Accessory Group	1	137,594	1.2%	1,069	1.4%
13	Ace World Class	1	161,610	1.5%	1,039	1.2%
14	Home Depot	1	192,000	1.7%	912	1.2%
15	JAM'N Logistics	1	110,336	1.0%	905	1.2%
16	Bar Logistics	1	115,954	1.0%	863	1.1%
17	XPO Logistics, Inc.	2	123,035	1.1%	847	1.1%
18	USPS	2	81,950	0.7%	808	1.0%
19	Service West Inc.	1	129,279	1.2%	796	1.0%
20	Flash Global Logistics	1	94,046	0.9%	756	1.0%
	Total	<u>40</u>	<u>3,426,534</u>	<u>30.9%</u>	<u>\$ 29,709</u>	<u>38.1%</u>

¹ Annualized base rent is calculated as monthly base rent per the leases, excluding any partial or full rent abatements, as of December 31, 2015, multiplied by 12.

As of December 31, 2015, 13 of our 85 properties with a net investment book value of approximately \$177.2 million were encumbered by mortgage loans payable totaling approximately \$83.5 million, which bear interest at a weighted average fixed annual rate of 4.4%.

Item 3. Legal Proceedings.

We are not involved in any material litigation nor, to our knowledge, is any material litigation threatened against us.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II**Item 5. Market for Our Common Stock and Related Stockholder Matters.****Market Information**

Our common stock is listed on the New York Stock Exchange (the “NYSE”) under the symbol “TRNO”. The following table sets forth, for the indicated periods, the high and low sale prices for our common stock, as reported on the NYSE and the per share dividends declared:

<u>Year</u>	<u>High</u>	<u>Low</u>	<u>Dividend per common share</u>
2015			
First Quarter	\$23.89	\$21.14	\$ 0.16
Second Quarter	23.19	19.40	0.16
Third Quarter	21.65	19.59	0.16
Fourth Quarter	23.48	19.39	0.18
2014			
First Quarter	\$19.00	\$16.88	\$ 0.13
Second Quarter	19.84	17.83	0.14
Third Quarter	20.38	18.51	0.14
Fourth Quarter	21.48	18.94	0.16

As of January 26, 2016, there were approximately 10,510 holders of record of shares of our common stock. This number does not include stockholders for which shares are held in “nominee” or “street” name.

Distribution Policy

We intend to pay regular quarterly distributions when, as and if authorized by our board of directors and declared by us. Our ability to make distributions to our stockholders also will depend on our levels of retained cash flows, which we intend to use as a source of investment capital. In order to qualify for taxation as a REIT, we must distribute to our stockholders an amount at least equal to:

- (i) 90% of our REIT taxable income (determined before the deduction for dividends paid and excluding any net capital gain); plus
- (ii) 90% of the excess of our after-tax net income, if any, from foreclosure property over the tax imposed on such income by the Code; less
- (iii) the sum of certain items of non-cash income.

Generally, we expect to distribute 100% of our REIT taxable income so as to avoid the income and excise tax on undistributed REIT taxable income. However, we cannot assure you as to our ability to sustain those distributions.

The timing and frequency of distributions will be authorized by our board of directors and declared by us based upon a variety of factors, including:

- actual results of operations;
- our level of retained cash flows;
- any debt service requirements;
- capital expenditure requirements for our properties;
- our property dispositions;
- our taxable income;

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- the annual distribution requirement under the REIT provisions of the Code;
- the amount required to declare and pay in cash or set aside for the payment of dividends on our Series A Preferred Stock for all past dividend periods that have ended;
- our operating expenses;
- restrictions on the availability of funds under Maryland law; and
- other factors that our board of directors may deem relevant.

In addition, our credit facility has a covenant limiting our maximum REIT distribution paid to a percentage of our funds from operations (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures”) before acquisition costs of 95% for each fiscal year (subject to distribution payments necessary to preserve our REIT status). To the extent that, in respect of any calendar year, cash available for distribution is less than our REIT taxable income, we could be required to sell assets or borrow funds to make cash distributions or make a portion of the required distribution in the form of a taxable share distribution or distribution of debt securities. Income as computed for purposes of the tax rules described above will not necessarily correspond to our income as determined for financial reporting purposes.

Distributions to our stockholders generally are taxable to our stockholders as ordinary income; however, because a significant portion of our investments are equity ownership interests in industrial properties, which generate depreciation and other non-cash charges against our income, a portion of our distributions may constitute a tax-free return of capital, although our current intention is to limit the level of such return of capital.

The following table sets forth the cash dividends paid or payable during the years ended December 31, 2015 and 2014:

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2015	Common stock	\$ 0.160000	February 18, 2015	April 7, 2015	April 21, 2015
March 31, 2015	Preferred stock	\$ 0.484375	February 18, 2015	March 10, 2015	March 31, 2015
June 30, 2015	Common stock	\$ 0.160000	May 5, 2015	July 7, 2015	July 21, 2015
June 30, 2015	Preferred stock	\$ 0.484375	May 5, 2015	June 11, 2015	June 30, 2015
September 30, 2015	Common stock	\$ 0.160000	August 4, 2015	October 7, 2015	October 21, 2015
September 30, 2015	Preferred stock	\$ 0.484375	August 4, 2015	September 10, 2015	September 30, 2015
December 31, 2015	Common stock	\$ 0.180000	November 3, 2015	December 31, 2015	January 14, 2016
December 31, 2015	Preferred stock	\$ 0.484375	November 3, 2015	December 10, 2015	December 31, 2015

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2014	Common stock	\$ 0.130000	February 19, 2014	April 7, 2014	April 21, 2014
March 31, 2014	Preferred stock	\$ 0.484375	February 19, 2014	March 10, 2014	March 31, 2014
June 30, 2014	Common stock	\$ 0.140000	May 9, 2014	July 7, 2014	July 21, 2014
June 30, 2014	Preferred stock	\$ 0.484375	May 9, 2014	June 11, 2014	June 30, 2014
September 30, 2014	Common stock	\$ 0.140000	August 8, 2014	October 7, 2014	October 21, 2014
September 30, 2014	Preferred stock	\$ 0.484375	August 8, 2014	September 12, 2014	September 30, 2014
December 31, 2014	Common stock	\$ 0.160000	November 4, 2014	December 31, 2014	January 14, 2015
December 31, 2014	Preferred stock	\$ 0.484375	November 4, 2014	December 12, 2014	December 31, 2014

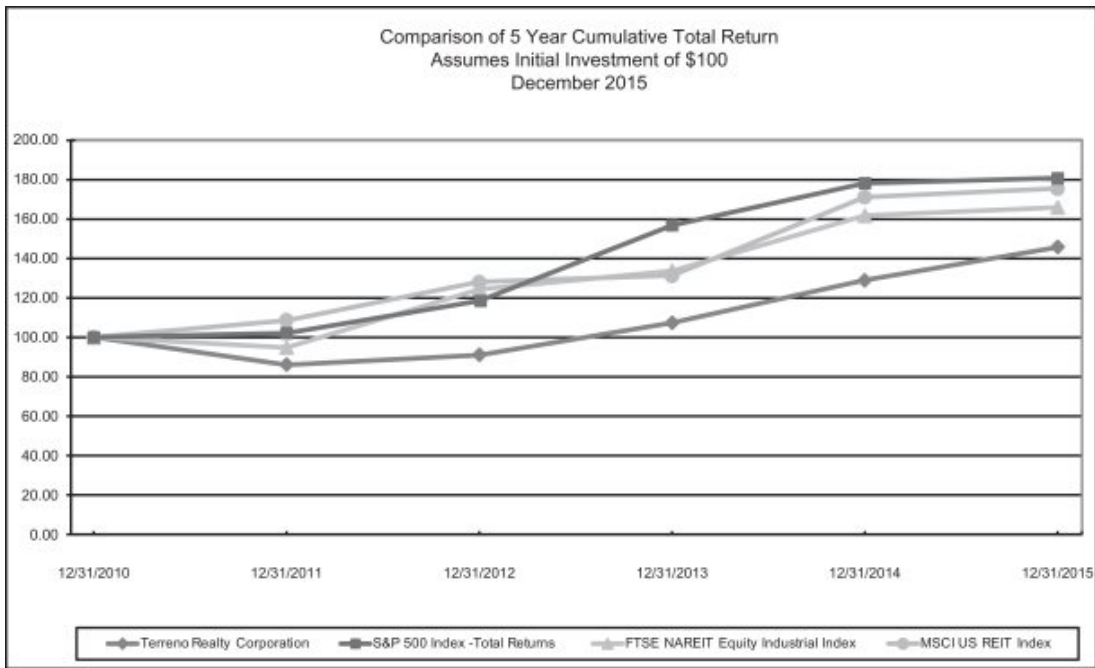
Issuer Purchases of Equity Securities

<u>Period</u>	(a) Total Number of Shares of Common Stock Purchased	(b) Average Price Paid per Common Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plan or Program
October 1, 2015 - October 31, 2015	—	\$ —	N/A	N/A
November 1, 2015 - November 30, 2015	287 ¹	21.55	N/A	N/A
December 1, 2015 - December 31, 2015	—	—	N/A	N/A
	<u>287</u>	<u>\$ 21.55</u>	N/A	N/A

¹ Represents shares of common stock surrendered by employees to the company to satisfy such employees’ tax withholding obligations in connection with the vesting of restricted stock.

Performance Graph

The following graph compares the change in the cumulative total stockholder return on our common stock during the period from December 31, 2010 to December 31, 2015 with the cumulative total return of the Standard and Poor’s 500 Stock Index, the MSCI U.S. REIT Index (RMS) and the FTSE NAREIT Equity Industrial Index. The return shown on the graph is not necessarily indicative of future performance. The comparison assumes that \$100 was invested on December 31, 2010 in our common stock and in each of the foregoing indices and assumes reinvestment of dividends, if any.



The performance graph and related information shall not be deemed “soliciting material” or be deemed to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing, except to the extent that the company specifically incorporates it by reference into such filing.

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Item 6. Selected Financial Data.

The following table sets forth selected financial data derived from our audited consolidated financial statements as of and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, should be read in conjunction with the consolidated financial statements and notes thereto included in this Annual Report on Form 10-K beginning on page F-1 and with Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (dollars in thousands, except share and per share amounts):

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
Operating Data					
Total revenues	\$ 95,895	\$ 68,875	\$ 45,529	\$ 29,335	\$ 14,182
Total costs and expenses	82,240	51,567	36,973	25,931	17,375
Gain on sales of real estate investments	10,567	—	—	—	—
Income (loss) from continuing operations	14,601	10,718	2,451	(2,031)	(5,807)
Income from discontinued operations	—	—	1,412	2,059	2,078
Gain on sales of real estate investments	—	—	2,778	4,037	—
Net income (loss) available to common stockholders, net of preferred stock dividends	10,958	7,126	3,056	2,437	(3,729)
Earnings per Common Share - Basic and Diluted:					
Income (loss) from continuing operations available to common stockholders, net of preferred stock dividends	\$ 0.26	\$ 0.23	\$ (0.05)	\$ (0.28)	\$ (0.64)
Income from discontinued operations	—	—	0.20	0.47	0.23
Net income (loss) available to common stockholders, net of preferred stock dividends	<u>\$ 0.26</u>	<u>\$ 0.23</u>	<u>\$ 0.15</u>	<u>\$ 0.19</u>	<u>\$ (0.41)</u>
Dividends declared per common share	\$ 0.66	\$ 0.57	\$ 0.51	\$ 0.46	\$ 0.40
Dividends declared per preferred share	1.94	1.94	1.94	0.87	—
Basic and Diluted Weighted Average Common Shares Outstanding	42,861,276	30,433,017	21,011,276	13,135,440	9,161,805
Other Data					
Funds from operations ¹	\$ 36,172	\$ 26,097	\$ 12,689	\$ 7,435	\$ 1,056
Basic and diluted FFO per common share ¹	0.84	0.86	0.60	0.57	0.12
Cash flows provided by (used in):					
Operating activities	\$ 42,068	\$ 29,321	\$ 13,495	\$ 9,749	\$ 2,149
Investing activities	(255,359)	(249,916)	(201,865)	(160,180)	(105,884)
Financing activities	45,140	404,207	189,429	153,112	49,731
Balance Sheet Data					
Investments in real estate at cost ²	\$ 1,179,920	\$ 901,273	\$ 651,839	\$ 445,348	\$ 264,584
Total assets	1,152,138	1,074,735	644,165	444,192	266,693
Total debt	381,475	302,470	190,472	178,170	99,671
Total stockholders’ equity	733,082	747,036	438,835	255,274	159,011

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- ¹ See Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures,” in this Annual Report on Form 10-K for a reconciliation to net income (loss), net of preferred stock dividends and a discussion of why we believe funds from operations, or FFO, is a useful supplemental measure of operating performance, ways in which investors might use FFO when assessing our financial performance, and FFO’s limitations as a measurement tool.
- ² Excludes one property held for sale with a gross book value of approximately \$6.3 million as of December 31, 2015 and property held for sale with a gross book value of approximately \$6.9 million as of December 31, 2014.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion in conjunction with the sections of this Annual Report on Form 10-K entitled “Risk Factors”, “Forward-Looking Statements”, “Business” and our audited consolidated financial statements and the related notes thereto included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements reflecting current expectations that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in the section entitled “Risk Factors” and elsewhere in this Annual Report on Form 10-K.

Overview

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. We invest in several types of industrial real estate, including warehouse/distribution (approximately 92.2% of our total portfolio square footage as of December 31, 2015), flex (including light industrial and R&D) (approximately 6.3%) and trans-shipment (approximately 1.5%). We target functional buildings in infill locations that may be shared by multiple tenants and that cater to customer demand within the various submarkets in which we operate. As of December 31, 2015, we owned 148 buildings (including one building held for sale) aggregating approximately 11.1 million square feet, one redevelopment property expected to contain approximately 0.2 million square feet and two improved land parcels consisting of 3.5 acres, which we purchased for an aggregate purchase price of approximately \$1.1 billion. As of December 31, 2015, our properties were approximately 91.5% leased to 352 customers, the largest of which accounted for approximately 4.4% of our total annualized base rent. We are an internally managed Maryland corporation and elected to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ended December 31, 2010.

Our Investment Strategy

We acquire, own and operate in industrial properties 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. We invest in several types of industrial real estate, including warehouse/distribution, flex (including light industrial and R&D) and trans-shipment. We target functional buildings in infill locations that may be shared by multiple tenants and that cater to customer demand within the various submarkets in which we operate.

We selected our target markets by drawing upon the experience of our executive management investing and operating in over 50 global industrial markets located in North America, Europe and Asia, the fundamentals of supply and demand, and in anticipation of trends in logistics patterns resulting from population changes, regulatory and physical constraints, changes in technology, potential long term increases in carbon prices and other factors. We believe that our target markets have attractive long term investment attributes. We target assets with characteristics that include, but are not limited to, the following:

- Located in high population coastal markets;
- Close proximity to transportation infrastructure (such as sea ports, airports, highways and railways);

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- Situated in supply-constrained submarkets with barriers to new industrial development, as a result of physical and/or regulatory constraints;
- Functional and flexible layout that can be modified to accommodate single and multiple tenants;
- Acquisition price at a discount to the replacement cost of the property;
- Potential for enhanced return through re-tenanting or operational and physical improvements; and
- Opportunity for higher and better use of the property over time.

In general, we prefer to utilize local third party property managers for day-to-day property management and as a source of acquisition opportunities. We believe outsourcing property management is cost effective and provides us with operational flexibility. We currently manage one of our properties directly and may directly manage other properties in the future if we determine such direct property management is in our best interest.

We have no current intention to acquire undeveloped industrial land or to pursue ground up development. However, we may pursue redevelopment and expansion opportunities of properties that we own or acquire adjacent land to expand our existing facilities.

We expect that we will continue to acquire the significant majority of our investments as equity interests in individual properties, portfolios of properties or acquired improved industrial land parcels which may be rented without a building in place. We may also acquire industrial properties through the acquisition of other corporations or entities that own industrial real estate. We will opportunistically target investments in debt secured by industrial real estate that would otherwise meet our investment criteria with the intention of ultimately acquiring the underlying real estate. We currently do not intend to target specific percentages of holdings of particular types of industrial properties. This expectation is based upon prevailing market conditions and may change over time in response to different prevailing market conditions.

The properties we acquire may be stabilized (fully leased) or unstabilized (have near term lease expirations or be partially or fully vacant). During the period from February 16, 2010 to December 31, 2015, we acquired 48 unstabilized properties of which 33 have been stabilized.

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 and/or the market value of the property is significantly greater than its estimated replacement cost. Capital from such sales is reinvested into properties that are expected to provide better prospective returns or returned to shareholders. We have disposed of four properties since inception for a cumulative sales price of approximately \$60.6 million and a total gain of approximately \$17.4 million.

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2015 Developments

Acquisition Activity

During 2015, we acquired 29 industrial buildings containing 2,272,653 square feet for a total purchase price of approximately \$268.5 million. The properties were acquired from unrelated third parties using existing cash on hand, net of an assumed mortgage loan payable of approximately \$4.8 million with a fixed interest rate of approximately 5.71%. The following table sets forth the industrial buildings we acquired during 2015:

Property Name	Location	Acquisition Date	Number of Buildings	Square Feet	Purchase Price (in thousands) ¹	Stabilized Cap Rate ²
10100 NW 25th	Doral, FL	January 23, 2015	1	106,810	\$ 9,875	6.4%
V Street	Washington, D.C.	January 29, 2015	6	820,207	115,500	5.8%
9070 Junction	Annapolis Junction, MD	February 19, 2015	1	115,287	10,360	6.2%
NW 81st	Medley, FL	February 27, 2015	2	89,264	8,500	5.5%
Ahern II	Union City, CA	March 26, 2015	1	64,754	7,375	5.5%
Kent 190th	Kent, WA	April 16, 2015	1	115,300	11,150	5.2%
Olympic	Tukwila, WA	April 23, 2015	1	34,200	3,200	5.0%
Kent Corporate Park	Kent, WA	July 2, 2015	4	138,154	12,250	6.2%
Miami International Trade Center	Medley, FL	September 3, 2015	4	154,552	17,250	5.8%
180 Manor	East Rutherford, NJ	October 15, 2015	1	84,720	9,338	6.1%
4225 2nd Avenue	Seattle, WA	October 26, 2015	1	50,832	8,285	5.8%
22 Madison	Fairfield, NJ	November 20, 2015	1	39,785	3,200	5.8%
Kent 202	Kent, WA	December 14, 2015	1	158,168	14,875	6.0%
Central Pacific Business Park II	Union City, CA	December 29, 2015	4	300,620	37,300	5.5%
Total/Weighted Average			29	2,272,653	\$ 268,458	5.8%

¹ Excludes intangible liabilities and mortgage premiums, if any. The total aggregate investment was approximately \$271.5 million.

² Stabilized cap rates are calculated, at the time of acquisition, as annualized cash basis net operating income for the property stabilized to market occupancy (generally 95%) divided by the total acquisition cost for the property. Total acquisition cost basis for the property includes the initial purchase price, the effects of marking assumed debt to market, buyer's due diligence and closing costs, estimated near-term capital expenditures and leasing costs necessary to achieve stabilization. We define cash basis net operating income for the property as net operating income excluding straight-line rents and amortization of lease intangibles. These stabilized cap rates 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, including risks related to our ability to meet our estimated forecasts related to stabilized cap rates and those risk factors contained in this Annual Report on Form 10-K.

Disposition Activity

During 2015, we sold two properties for a cumulative sales price of approximately \$24.6 million, resulting in a total gain of approximately \$10.6 million. We sold one property located in the San Francisco Bay Area market for a sales price of approximately \$13.4 million, resulting in a gain of approximately \$6.3 million and one property located in the Washington, D.C./Baltimore market for a sales price of approximately \$11.2 million, resulting in a gain of approximately \$4.3 million.

Redevelopment Activity

In 2015, we began redevelopment of our South Main Street property in Carson, California. We demolished three buildings totaling approximately 186,000 square feet and we will construct a new front-load industrial distribution building containing approximately 210,000 square feet and will renovate an existing approximately 34,000 square foot office building. The property is 73.8% pre-leased and the expected redevelopment cost is approximately \$16.4 million for a total expected investment of approximately \$38.0 million, excluding approximately \$2.3 million of intangible liabilities.

[Table of Contents](#)**Senior Unsecured Notes**

On September 1, 2015, we issued in a private placement \$50.0 million of senior unsecured notes with a seven-year term that bear interest at a fixed annual interest rate of 4.23% and mature in September 2022. On October 13, 2015, we issued in a private placement \$50.0 million of senior unsecured notes with a 12-year maturity that bear interest at a fixed annual interest rate of 4.65% and mature in October 2027 (collectively the “Senior Unsecured Notes”).

Share Repurchase Program

On August 4, 2015, our Board of Directors approved a share repurchase program authorizing us to repurchase up to 2,000,000 shares of our outstanding common stock from time to time through December 31, 2016. Purchases made pursuant to the program, if any, will be made in either the open market or in privately negotiated transactions as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchases will be determined by us in our discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The program may be suspended or discontinued at any time. As of December 31, 2015 we have not repurchased any shares of stock pursuant to our share repurchase authorization.

Dividend and Distribution Activity

The following table sets forth the cash dividends paid or payable per share during the year ended December 31, 2015:

<u>For the Three Months Ended</u>	<u>Security</u>	<u>Dividend per Share</u>	<u>Declaration Date</u>	<u>Record Date</u>	<u>Date Paid</u>
March 31, 2015	Common stock	\$ 0.160000	February 18, 2015	April 7, 2015	April 21, 2015
March 31, 2015	Preferred stock	\$ 0.484375	February 18, 2015	March 10, 2015	March 31, 2015
June 30, 2015	Common stock	\$ 0.160000	May 5, 2015	July 7, 2015	July 21, 2015
June 30, 2015	Preferred stock	\$ 0.484375	May 5, 2015	June 11, 2015	June 30, 2015
September 30, 2015	Common stock	\$ 0.160000	August 4, 2015	October 7, 2015	October 21, 2015
September 30, 2015	Preferred stock	\$ 0.484375	August 4, 2015	September 10, 2015	September 30, 2015
December 31, 2015	Common stock	\$ 0.180000	November 3, 2015	December 31, 2015	January 14, 2016
December 31, 2015	Preferred stock	\$ 0.484375	November 3, 2015	December 10, 2015	December 31, 2015

Recent Developments**Acquisition Activity**

Subsequent to December 31, 2015, we acquired one industrial building containing 35,480 square feet for a total purchase price of approximately \$6.5 million. The property was acquired from an unrelated third party using cash on hand. The following table sets forth the wholly-owned industrial property we acquired subsequent to December 31, 2015:

<u>Property Name</u>	<u>Location</u>	<u>Acquisition Date</u>	<u>Number of Buildings</u>	<u>Square Feet</u>	<u>Purchase Price (in thousands)</u>	<u>Stabilized Cap Rate</u>
4930 3rd Avenue South	Seattle, WA	January 25, 2016	1	35,480	\$ 6,500	6.2%
Total/Weighted Average			1	35,480	\$ 6,500	6.2%

Contractual Commitments

As of February 10, 2016 we have four outstanding contracts with third-party sellers to acquire four industrial properties, one non-binding letter of intent with a third-party seller to acquire one industrial property and two outstanding contracts with third-party purchasers to sell two properties as further described under the heading “Contractual Obligations” in this Annual Report on Form 10-K. There is no assurance that we will acquire or sell the properties under contract or non-binding letter of intent because the proposed acquisitions and dispositions are subject to the completion of satisfactory due diligence and various closing conditions, and, in addition, with respect to the property under non-binding letter of intent, our entry into a purchase and sale agreement.

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 2016 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.

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 \$1.2 billion today. This will utilize approximately \$2 billion of equity up from approximately \$1 billion today. We expect this to optimize our operating efficiency, increase our shareholder liquidity and maintain our recently acquired investment grade credit rating. 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.

The primary source of our operating revenues and earnings is rents received from tenants under operating leases at our properties, including reimbursements from tenants for certain operating costs. We seek long-term earnings growth primarily through increasing rents and operating income at existing properties and acquiring properties in our six target markets. We intend to seek to grow our portfolio by utilizing one or more of cash on hand, future borrowings under our credit facility, future sales of common or preferred equity and future placements of secured or unsecured debt.

Inflation

Although the U.S. economy has been experiencing relatively modest inflation rates recently, and a wide variety of industries and sectors are affected differently by changing commodity prices, inflation has not had a significant impact on us in our markets of operation. Most of our leases require the tenants to pay their share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing our exposure to increases in costs and operating expenses resulting from inflation. In addition, approximately 69.3% of our total rentable square feet expire within five years which enables us to seek to replace existing leases with new leases at the then-existing market rate.

Financial Condition and Results of Operations

We derive substantially all of our revenues from rents received from tenants under existing leases on each of our properties. These revenues include fixed base rents and recoveries of certain property operating expenses that we have incurred and that we pass through to the individual tenants. Approximately 86.0% of our leased space includes fixed rental increases or Consumer Price Index-based rental increases. Lease terms typically range from three to ten years.

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Our primary cash expenses consist of our property operating expenses, which include: real estate taxes, repairs and maintenance, management expenses, insurance, utilities, general and administrative expenses, which include compensation costs, office expenses, professional fees and other administrative expenses, acquisition costs, which include third-party costs paid to brokers and consultants, and interest expense, primarily on mortgage loans and our credit facility and senior unsecured notes.

Our consolidated results of operations often are not comparable from period to period due to the impact of property acquisitions at various times during the course of such periods. The results of operations of any acquired property are included in our financial statements as of the date of its acquisition.

The analysis of our results below for the years ended December 31, 2015 and 2014 includes the changes attributable to same store properties. The same store pool for the comparison of the 2015 and 2014 fiscal years includes all properties that were owned and in operation as of December 31, 2015 and since January 1, 2014 and excludes properties that were either disposed of prior to, held for sale to a third party or in redevelopment as of December 31, 2015. As of December 31, 2015, the same store pool consisted of 89 buildings aggregating approximately 6.3 million square feet representing approximately 57.0% of our total square feet owned. As of December 31, 2015, the non-same store properties, which we acquired or sold during 2014 and 2015, were held for sale or in redevelopment as of December 31, 2015, consisted of 59 buildings aggregating approximately 4.8 million square feet and one redevelopment property expected to contain approximately 0.2 million square feet. As of December 31, 2015 and 2014, the consolidated same store pool occupancy was approximately 94.4% and 95.4%, respectively.

Our future financial condition and results of operations, including rental revenues, straight-line rents and amortization of lease intangibles, may be impacted by the acquisitions of additional properties, and expenses may vary materially from historical results.

Comparison of the Year Ended December 31, 2015 to the Year Ended December 31, 2014:

	For the Year Ended December 31,		\$ Change	% Change
	2015	2014		
	(Dollars in thousands)			
Rental revenues				
Same store	\$48,036	\$45,741	\$ 2,295	5.0%
Non-same store operating properties ¹	27,863	8,387	19,476	232.2%
Total rental revenues	75,899	54,128	21,771	40.2%
Tenant expense reimbursements				
Same store	12,549	12,357	192	1.6%
Non-same store operating properties ¹	7,447	2,390	5,057	211.6%
Total tenant expense reimbursements	19,996	14,747	5,249	35.6%
Total revenues	95,895	68,875	27,020	39.2%
Property operating expenses				
Same store	17,485	16,494	991	6.0%
Non-same store operating properties ¹	9,170	2,667	6,503	243.8%
Total property operating expenses	26,655	19,161	7,494	39.1%
Net operating income ²				
Same store	43,100	41,604	1,496	3.6%
Non-same store operating properties ¹	26,140	8,110	18,030	222.3%
Total net operating income	\$69,240	\$49,714	\$19,526	39.3%
Other costs and expenses				
Depreciation and amortization	36,026	19,170	16,856	87.9%
General and administrative	14,846	9,496	5,350	56.3%
Acquisition costs	4,713	3,740	973	26.0%
Total other costs and expenses	55,585	32,406	23,179	71.5%
Other income (expense)				
Interest and other income	18	1	17	1700.0%
Interest expense, including amortization	(9,639)	(6,591)	(3,048)	46.2%
Gain on sales of real estate investments	10,567	—	10,567	n/a
Total other income and expenses	946	(6,590)	7,536	n/a
Income from discontinued operations	—	—	—	n/a
Net income	\$14,601	\$10,718	\$ 3,883	36.2%

¹ Includes 2014 and 2015 acquisitions, one property under redevelopment and one property held for sale to a third party with a gross book value of approximately \$6.3 million and accumulated depreciation and amortization of approximately \$1.3 million as of December 31, 2015.

² Includes straight-line rents and amortization of lease intangibles. See “Non-GAAP Financial Measures” in this Annual Report on Form 10-K for a reconciliation of net operating income and same store net operating income from net income and a discussion of why we believe net operating income and same store net operating income are useful supplemental measures of our operating performance.

Revenues. Total revenues increased approximately \$27.0 million for the year ended December 31, 2015 compared to the prior year due primarily to property acquisitions during 2014 and 2015, increased average occupancy at Garfield and Littlefield and increased rental rates in the same store pool portfolio. In addition, rent changes on new and renewed leases commenced during the year ended December 31, 2015 were approximately

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9.0% higher as compared with the previous rental rates in that same space. For the quarter and year ended December 31, 2015, approximately \$0.6 million and \$2.9 million, respectively, was recorded in straight-line rental revenues related to contractual rent abatements given to certain tenants.

Property operating expenses. Total property operating expenses increased approximately \$7.5 million during the year ended December 31, 2015 compared to the same period from the prior year due primarily to property acquisitions during 2014 and 2015. Total same store property operating expenses increased during the year ended December 31, 2015 compared to the same period from the prior year primarily due to an increase in snow removal expenses.

Depreciation and amortization. Depreciation and amortization increased approximately \$16.9 million during the year ended December 31, 2015 compared to the same period from the prior year due to property acquisitions during 2014 and 2015. In addition, we incurred additional depreciation expense of approximately \$4.0 million during the year ended December 31, 2015 related to the redevelopment of our South Main Street property as a result of the reduction of the useful lives of the original buildings.

General and administrative expenses. General and administrative expenses increased approximately \$5.4 million for the year ended December 31, 2015 compared to the same period from the prior year due primarily to an increase in the performance share awards expense of approximately \$3.8 million and increased compensation expense and professional fees as compared to the prior year period.

Acquisition costs. Acquisition costs increased by approximately \$1.0 million for the year ended December 31, 2015 from the prior year due to a higher volume of property acquisitions during the year ended December 31, 2015 as compared to the prior year.

Interest and other income. Interest and other income increased approximately \$17,000 for the year ended December 31, 2015 compared to the same period from the prior year due primarily to increased average cash and cash equivalent holdings.

Interest expense, including amortization. Interest expense increased approximately \$3.0 million for the year ended December 31, 2015 compared to the prior year due primarily to an increase in our average outstanding borrowings including \$100.0 million of senior unsecured notes issued in 2015.

The analysis of our results below for the years ended December 31, 2014 and 2013 includes the changes attributable to same store properties. The same store pool for the comparison of the 2014 and 2013 fiscal years includes all properties that were owned and in operation as of December 31, 2014 and since January 1, 2013 and excludes properties that were either disposed of prior to or held for sale to a third party as of December 31, 2014. As of December 31, 2014, the same store pool consisted of 65 buildings aggregating approximately 4.8 million square feet representing 51.8% of our total square feet owned. As of December 31, 2014, the non-same store properties, which we acquired or sold during 2013 and 2014 or were held for sale as of December 31, 2014, consisted of 61 buildings aggregating approximately 4.5 million square feet. As of December 31, 2014 and 2013, the consolidated same store pool occupancy was approximately 97.1% and 96.3%, respectively.

Comparison of the Year Ended December 31, 2014 to the Year Ended December 31, 2013:

	For the Year Ended December 31,		\$ Change	% Change
	2014	2013		
	(Dollars in thousands)			
Rental revenues				
Same store	\$32,550	\$30,942	\$ 1,608	5.2%
Non-same store operating properties ¹	21,578	4,929	16,649	337.8%
Total rental revenues	54,128	35,871	18,257	50.9%
Tenant expense reimbursements				
Same store	9,363	8,717	646	7.4%
Non-same store operating properties ¹	5,384	941	4,443	472.2%
Total tenant expense reimbursements	14,747	9,658	5,089	52.7%
Total revenues	68,875	45,529	23,346	51.3%
Property operating expenses				
Same store	11,362	11,018	344	3.1%
Non-same store operating properties ¹	7,799	1,753	6,046	344.9%
Total property operating expenses	19,161	12,771	6,390	50.0%
Net operating income ²				
Same store	30,551	28,641	1,910	6.7%
Non-same store operating properties ¹	19,163	4,117	15,046	365.5%
Total net operating income	\$49,714	\$32,758	\$16,956	51.8%
Other costs and expenses				
Depreciation and amortization	19,170	12,481	6,689	53.6%
General and administrative	9,496	8,423	1,073	12.7%
Acquisition costs	3,740	3,298	442	13.4%
Total other costs and expenses	32,406	24,202	8,204	33.9%
Other income (expense)				
Interest and other income	1	109	(108)	(99.1)%
Interest expense, including amortization	(6,591)	(6,214)	(377)	6.1%
Gain on sales of real estate investments	—	—	—	n/a
Total other income and expenses	(6,590)	(6,105)	(485)	7.9%
Income from discontinued operations	—	4,190	(4,190)	n/a
Net income	\$10,718	\$ 6,641	\$ 4,077	61.4%

¹ Includes 2013 and 2014 acquisitions and one property held for sale to a third party with a gross book value of approximately \$6.9 million and accumulated depreciation and amortization of approximately \$0.6 million as of December 31, 2014.

² Includes straight-line rents and amortization of lease intangibles. See “Non-GAAP Financial Measures” in this Annual Report on Form 10-K for a reconciliation of net operating income and same store net operating income from net income and a discussion of why we believe net operating income and same store net operating income are useful supplemental measures of our operating performance.

Revenues. Total revenues increased approximately \$23.3 million for the year ended December 31, 2014 compared to the prior year due primarily to property acquisitions during 2013 and 2014 and increased occupancy in the same store pool portfolio. The increase in same store revenues is primarily related to same store consolidated occupancy at year end increasing to 97.1% as of December 31, 2014 as compared to 96.3% as of

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December 31, 2013. In addition, rent changes on new and renewed leases commenced during the year ended December 31, 2014 were approximately 8.0% higher as compared with the previous rental rates in that same space. For the quarter and year ended December 31, 2014, approximately \$0.3 million and \$1.5 million, respectively, was recorded in straight-line rental revenues related to contractual rent abatements given to certain tenants.

Property operating expenses. Total property operating expenses increased approximately \$6.4 million during the year ended December 31, 2014 compared to the prior year due primarily to property acquisitions during 2013 and 2014. Total same store property operating expenses increased during the year ended December 31, 2014 compared to the prior year primarily due to an increase in snow removal expenses.

Depreciation and amortization. Depreciation and amortization increased approximately \$6.7 million during the year ended December 31, 2014 compared to the prior year due to property acquisitions during 2013 and 2014.

General and administrative expenses. General and administrative expenses increased approximately \$1.1 million for the year ended December 31, 2014 compared to the same period from the prior year due primarily to increased compensation expense and professional fees, offset by a decrease in the performance share awards expense of approximately \$0.3 million as compared to the prior year.

Acquisition costs. Acquisition costs increased by approximately \$0.4 million for the year ended December 31, 2014 from the prior year due to a higher volume of property acquisitions during the year ended December 31, 2014 as compared to the prior year.

Interest and other income. Interest and other income decreased approximately \$0.1 million for the year ended December 31, 2014 compared to the prior year due primarily to insurance proceeds received in 2013 in excess of expenses due to Hurricane Sandy.

Interest expense, including amortization. Interest expense increased approximately \$0.4 million for the year ended December 31, 2014 compared to the prior year due primarily to the assumption and origination of mortgage loans payable during 2013 and 2014, as well as an increase in borrowings on the credit facility, net of capitalized interest.

Liquidity and Capital Resources

The primary objective of our financing strategy is to maintain financial flexibility with a conservative capital structure using retained cash flows, long-term debt and the issuance of common and perpetual preferred stock to finance our growth. Over the long-term, we intend to:

- limit the sum of the outstanding principal amount of our consolidated indebtedness and the liquidation preference of any outstanding perpetual preferred stock to less than 40% of our total enterprise value;
- maintain a fixed charge coverage ratio in excess of 2.0x;
- maintain a debt-to-adjusted EBITDA ratio below 6.5x;
- limit the principal amount of our outstanding floating rate debt to less than 20% of our total consolidated indebtedness; and
- have staggered debt maturities that are aligned to our expected average lease term (5-7 years), positioning us to re-price parts of our capital structure as our rental rates change with market conditions.

We intend to preserve a flexible capital structure with a long-term goal to maintain our investment grade rating and be in a position to issue additional unsecured debt and additional perpetual preferred stock. During 2015, Fitch Ratings assigned us an initial issuer rating of BBB- with a stable outlook. A security rating is not a

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recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. There can be no assurance that we will be able to maintain our current credit rating. Our credit rating can affect the amount and type of capital we can access, as well as the terms of any financings we may obtain. In the event our current credit rating is downgraded, it may become difficult or expensive to obtain additional financing or refinance existing obligations and commitments. We intend to primarily utilize unsecured bonds, recourse bank term loans, credit facilities and perpetual preferred stock. We may also assume debt in connection with property acquisitions which may have a higher loan-to-value.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our credit facility. We believe that our net cash provided by operations will be adequate to fund operating requirements, pay interest on any borrowings and fund distributions in accordance with the REIT requirements of the federal income tax laws. In the near-term, we intend to fund future investments in properties with term loans, senior unsecured notes, mortgages, borrowings under our credit facility, perpetual preferred and common stock issuances and, from time to time, property sales. We expect to meet our long-term liquidity requirements, including with respect to other investments in industrial properties, property acquisitions and scheduled debt maturities, through borrowings under our credit facility, periodic issuances of common stock, perpetual preferred stock, and long-term secured and unsecured debt, and with proceeds from the disposition of properties. The success of our acquisition strategy may depend, in part, on our ability to obtain and borrow under our credit facility and to access additional capital through issuances of equity and debt securities.

We have 1,840,000 shares of 7.75% Series A Cumulative Redeemable Preferred Stock (the “Series A Preferred Stock”) issued and outstanding. Dividends on the Series A Preferred Stock are payable when, as and if authorized by our board of directors quarterly in arrears on or about the last day of March, June, September and December of each year. The Series A Preferred Stock ranks, with respect to dividend rights and rights upon our liquidation, dissolution or winding-up, senior to our common stock.

Generally, we may not redeem the Series A Preferred Stock prior to July 19, 2017, except in limited circumstances relating to our ability to qualify as a REIT, and pursuant to a special optional redemption related to a specified change of control (as defined in the articles supplementary for the Series A Preferred Stock). On and after July 19, 2017, we may, at our option, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends (whether or not authorized or declared) up to but excluding the redemption date.

We have an at-the-market equity offering program (the “ATM Program”) pursuant to which we may issue and sell shares of our common stock having an aggregate offering price of up to \$100.0 million in amounts and at times as we determine from time to time. Actual sales, if any, will depend on a variety of factors to be determined by our company from time to time, including, among others, market conditions, the trading price of our common stock, our determinations of the appropriate sources of funding for our company and potential uses of funding available to us. During the year ended December 31, 2015, we issued an aggregate of 136,600 shares of common stock at a weighted average offering price of \$22.85 per share under the ATM Program, receiving net proceeds of approximately \$3.1 million and paying total compensation to the applicable sales agents of approximately \$47,000. As of December 31, 2015, we had shares of common stock having an aggregate offering price of up to \$96.9 million available for issuance under the ATM Program.

On September 1, 2015, we issued in a private placement \$50.0 million of Senior Unsecured Notes with a seven-year term that bear interest at a fixed annual interest rate of 4.23% and mature in September 2022. On October 13, 2015, we issued in a private placement \$50.0 million of Senior Unsecured Notes with a 12-year term that bear interest at a fixed annual interest rate of 4.65% and mature in October 2027. As of December 31, 2015, we had a credit facility (the “Facility”), which consists of a \$100.0 million revolving credit facility that matures in May 2018, a \$50.0 million term loan that matures in May 2019, a \$50.0 million term loan that matures in May 2021 and a \$100.0 million term loan that matures in March 2020. As of both December 31, 2015 and 2014, there

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were no borrowings outstanding on the revolving credit facility and \$200.0 million of borrowings outstanding on the term loans. We have three interest rate caps to hedge the variable cash flows associated \$150.0 million of our existing variable-rate term loans. See “Note 8 – Derivative Financial Instruments” in our notes to consolidated financial statements for more information regarding our interest rate caps.

The aggregate amount of the Facility may be increased to a total of up to \$500.0 million, subject to the approval of the administrative agent and the identification of lenders willing to make available additional amounts. Outstanding borrowings under the Facility are limited to the lesser of (i) the sum of the \$200.0 million term loans and the \$100.0 million revolving credit facility, or (ii) 60.0% of the value of the unencumbered properties. Interest on the Facility, including the term loans, is generally to be paid based upon, at our option, either (i) LIBOR plus the applicable LIBOR margin or (ii) the applicable base rate which is the greatest of the administrative agent’s prime rate, 0.50% above the federal funds effective rate, or thirty-day LIBOR plus the applicable LIBOR margin for LIBOR rate loans under the Facility plus 1.25%. The applicable LIBOR margin will range from 1.50% to 2.05% (1.50% at December 31, 2015) for the revolving credit facility, the \$50.0 million term loan that matures in May 2019 and the \$100.0 million term loan that matures in March 2020 and 1.75% to 2.30% (1.75% at December 31, 2015) for the \$50.0 million term loan that matures in May 2021, depending on the ratio of our outstanding consolidated indebtedness to the value of our consolidated gross asset value. The Facility requires quarterly payments of an annual unused facility fee in an amount equal to 0.20% or 0.25% depending on the unused portion of the Facility.

The Facility and the Senior Unsecured Notes are guaranteed by us and by substantially all of the current and to-be-formed subsidiaries of the borrower that own an unencumbered property. The Facility and the Senior Unsecured Notes are unsecured by our properties or by interests in the subsidiaries that hold such properties. The Facility and the Senior Unsecured Notes include a series of financial and other covenants with which we must comply. We were in compliance with the covenants under the Facility and the Senior Unsecured Notes at December 31, 2015 and, as applicable, December 31, 2014.

As of December 31, 2015 and 2014, we had outstanding mortgage loans payable, net of deferred financing costs, of approximately \$83.5 million and \$103.8 million, respectively, and held cash and cash equivalents totaling approximately \$22.5 million and \$190.6 million, respectively.

The following table summarizes our debt maturities, principal payments, market capitalization, capitalization ratios, Adjusted EBITDA, interest coverage, fixed charge coverage and debt ratios as of and for the year ended December 31, 2015 (dollars in thousands – except per share data):

	<u>Credit Facility</u>	<u>Term Loans</u>	<u>Senior Unsecured Notes</u>	<u>Mortgage Loans Payable</u>	<u>Total Debt</u>
2016	\$ —	\$ —	\$ —	\$16,871	\$ 16,871
2017	—	—	—	1,916	1,916
2018	—	—	—	1,910	1,910
2019	—	50,000	—	18,805	68,805
2020	—	100,000	—	33,077	133,077
Thereafter	—	50,000	100,000	11,271	161,271
Subtotal	—	200,000	100,000	83,850	383,850
Unamortized net premiums	—	—	—	199	199
Total Debt	—	200,000	100,000	84,049	384,049
Deferred financing costs, net	—	(1,057)	(977)	(540)	(2,574)
Total Debt, net	<u>\$ —</u>	<u>\$ 198,943</u>	<u>\$ 99,023</u>	<u>\$83,509</u>	<u>\$ 381,475</u>
Weighted Average Interest Rate	n/a	1.8%	4.4%	4.4%	3.1%

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	Shares Outstanding ¹	Market Price ²	Market Value
Common Stock	43,310,272	\$ 22.62	\$ 979,678
Preferred Stock (\$25.00 per share liquidation preference)			46,000
Total Equity			<u>1,025,678</u>
Total Market Capitalization			<u>\$ 1,407,153</u>
Total Debt-to-Total Investments in Properties ³			32.2%
Total Debt-to-Total Market Capitalization ⁴			27.1%
Total Debt and Preferred Stock-to-Total Market Capitalization ⁵			30.4%
Floating Rate Debt as a % of Total Debt ⁶			52.2%
Adjusted EBITDA ⁷			\$ 60,493
Interest Coverage ⁸			6.3 x
Fixed Charge Coverage ⁹			4.5 x
Total Debt-to-Adjusted EBITDA ¹⁰			6.3 x
Total Debt and Preferred Stock-to-Adjusted EBITDA ¹¹			7.1 x
Weighted Average Maturity of Total Debt (years)			5.4

¹ Includes 403,468 shares of unvested restricted stock as of December 31, 2015.

² Closing price of our shares of common stock on the New York Stock Exchange on December 31, 2015 in dollars per share.

³ Total debt-to-total investments in properties is calculated as total debt, including premiums and net of deferred financing costs, divided by total investments in properties, including properties held for sale with a gross book value of \$6.3 million, as of December 31, 2015.

⁴ Total debt-to-total market capitalization is calculated as total debt, including premiums and net of deferred financing costs, divided by total market capitalization as of December 31, 2015.

⁵ Total debt and preferred stock-to-total market capitalization is calculated as total debt, including premiums and net of deferred financing costs, plus preferred stock at liquidation preference, divided by total market capitalization as of December 31, 2015.

⁶ Floating rate debt includes \$50.0 million of our existing term loan borrowings with an interest rate cap of 4.0% plus 1.75% to 2.30%, depending on leverage, and \$100.0 million of our existing term loan borrowings with interest rate caps of 4.0% plus 1.50% to 2.05%, depending on leverage. See “Note 8 –

⁷ Derivative Financial Instruments” in our notes to consolidated financial statements for more information regarding our interest rate caps. Earnings before interest, taxes, gains (losses) from sales of property, depreciation and amortization, acquisition costs and stock-based compensation (“Adjusted EBITDA”) for the year ended December 31, 2015. See “Non-GAAP Financial Measures” in this Annual Report on Form 10-K for a definition and reconciliation of Adjusted EBITDA from net income and a discussion of why we believe Adjusted EBITDA is a useful supplemental measure of our operating performance.

⁸ Interest coverage is calculated as Adjusted EBITDA divided by interest expense, including amortization. See “Non-GAAP Financial Measures” in this Annual Report on Form 10-K for a definition and reconciliation of Adjusted EBITDA from net income and a discussion of why we believe Adjusted EBITDA is a useful supplemental measure of our operating performance.

⁹ Fixed charge coverage is calculated as Adjusted EBITDA divided by interest expense, including amortization plus preferred stock dividends. See “Non-GAAP Financial Measures” in this Annual Report on Form 10-K for a definition and reconciliation of Adjusted EBITDA from net income and a discussion of why we believe Adjusted EBITDA is a useful supplemental measure of our operating performance.

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¹⁰ Total debt-to-Adjusted EBITDA is calculated as total debt, including premiums and net of deferred financing costs, divided by annualized Adjusted EBITDA. See “Non-GAAP Financial Measures” in this Annual Report on Form 10-K for a definition and reconciliation of Adjusted EBITDA from net income and a discussion of why we believe Adjusted EBITDA is a useful supplemental measure of our operating performance.

¹¹ Total debt and preferred stock-to-Adjusted EBITDA is calculated as total debt, including premiums and net of deferred financing costs, plus preferred stock divided by annualized Adjusted EBITDA. See “Non-GAAP Financial Measures” in this Annual Report on Form 10-K for a definition and reconciliation of Adjusted EBITDA from net income and a discussion of why we believe Adjusted EBITDA is a useful supplemental measure of our operating performance.

The following table sets forth the cash dividends paid or payable per share during the years ended December 31, 2015 and 2014.

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2015	Common stock	\$ 0.160000	February 18, 2015	April 7, 2015	April 21, 2015
March 31, 2015	Preferred stock	\$ 0.484375	February 18, 2015	March 10, 2015	March 31, 2015
June 30, 2015	Common stock	\$ 0.160000	May 5, 2015	July 7, 2015	July 21, 2015
June 30, 2015	Preferred stock	\$ 0.484375	May 5, 2015	June 11, 2015	June 30, 2015
September 30, 2015	Common stock	\$ 0.160000	August 4, 2015	October 7, 2015	October 21, 2015
September 30, 2015	Preferred stock	\$ 0.484375	August 4, 2015	September 10, 2015	September 30, 2015
December 31, 2015	Common stock	\$ 0.180000	November 3, 2015	December 31, 2015	January 14, 2016
December 31, 2015	Preferred stock	\$ 0.484375	November 3, 2015	December 10, 2015	December 31, 2015

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2014	Common stock	\$0.130000	February 19, 2014	April 7, 2014	April 21, 2014
March 31, 2014	Preferred stock	\$0.484375	February 19, 2014	March 10, 2014	March 31, 2014
June 30, 2014	Common stock	\$0.140000	May 9, 2014	July 7, 2014	July 21, 2014
June 30, 2014	Preferred stock	\$0.484375	May 9, 2014	June 11, 2014	June 30, 2014
September 30, 2014	Common stock	\$0.140000	August 8, 2014	October 7, 2014	October 21, 2014
September 30, 2014	Preferred stock	\$0.484375	August 8, 2014	September 12, 2014	September 30, 2014
December 31, 2014	Common stock	\$0.160000	November 4, 2014	December 31, 2014	January 14, 2015
December 31, 2014	Preferred stock	\$0.484375	November 4, 2014	December 12, 2014	December 31, 2014

Sources and Uses of Cash

Our principal sources of cash are cash from operations, borrowings under loans payable, draws on our Facility, common and preferred stock issuances and issuances of unsecured notes. Our principal uses of cash are asset acquisitions, debt service, capital expenditures, operating costs, corporate overhead costs and common and preferred stock dividends.

Cash From Operating Activities. Net cash provided by operating activities totaled approximately \$42.1 million for the year ended December 31, 2015 compared to approximately \$29.3 million for the year ended December 31, 2014. This increase in cash provided by operating activities is primarily attributable to additional cash flows generated from properties acquired during 2014 and 2015.

Cash From Investing Activities. Net cash used in investing activities was approximately \$255.4 million and \$249.9 million, respectively, for the years ended December 31, 2015 and 2014, which consists primarily of cash paid for property acquisitions of \$263.2 million and \$225.8 million, respectively, and capital improvements of approximately \$20.4 million and \$19.7 million, respectively, offset by proceeds from sales of real estate investments of approximately \$23.7 million for the year ended December 31, 2015.

Cash From Financing Activities. Net cash provided by financing activities was approximately \$45.1 million for the year ended December 31, 2015, which consists primarily of approximately \$100.0 million of borrowings in connection with our issuance of Senior Unsecured Notes offset by approximately \$31.1 million in dividend payments and payments of mortgage loans payable of approximately \$24.8 million. Net cash provided by financing activities was approximately \$404.2 million for the year ended December 31, 2014, which consists primarily of approximately \$319.6 million in net common stock issuance proceeds and net borrowings on the Facility of approximately \$119.0 million less approximately \$12.3 million in net payments of mortgage loans payable and approximately \$19.3 million in dividend payments.

Critical Accounting Policies

Below is a discussion of the accounting policies that we believe are critical. We consider these policies critical because they require estimates about matters that are inherently uncertain, involve various assumptions and require significant management judgment, and because they are important for understanding and evaluating our reported financial results. These judgments will affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Applying different estimates or assumptions may result in materially different amounts reported in our financial statements.

Capitalization of Costs. We capitalize costs directly related to the redevelopment, expansion and renovation of our investment in real estate. Costs associated with redevelopment, expansion or renovation projects are capitalized as incurred. If the project is abandoned, these costs are expensed during the period in which the redevelopment project is abandoned. Costs considered for capitalization include, but are not limited to, construction costs, interest, real estate taxes and insurance, if appropriate. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress. In the event that the activities to ready the asset for its intended use are suspended, the capitalization period will cease until such activities are resumed. Costs incurred for maintaining and repairing properties, which do not extend their useful lives, are expensed as incurred.

Interest is capitalized based on actual capital expenditures from the period when redevelopment or expansion commences until the asset is ready for its intended use, at the weighted average borrowing rate during the period.

Property Acquisitions. Upon acquisition of a property, which are accounted for as business combinations, we estimate the fair value of acquired tangible assets (consisting generally of land, buildings and improvements) and intangible assets and liabilities (consisting generally of the above and below-market leases and the origination value of all in-place leases). We determine fair values using replacement cost, estimated cash flow projections and other valuation techniques and applying appropriate discount and capitalization rates based on available market information. Mortgage loans assumed in connection with acquisitions are recorded at their fair value using current market interest rates for similar debt at the date of acquisition. Acquisition-related costs associated with business combinations are expensed as incurred.

The fair value of the tangible assets is determined by valuing the property as if it were vacant. Land values are derived from current comparative sales values, when available, or management's estimates of the fair value based on market conditions and the experience of our management team. Building and improvement values are calculated as replacement cost less depreciation, or management's estimates of the fair value of these assets using discounted cash flows analyses or similar methods. The fair value of the above and below-market leases is based on the present value of the difference between the contractual amounts to be received pursuant to the acquired leases (using a discount rate that reflects the risks associated with the acquired leases) and our estimate of the market lease rates measured over a period equal to the remaining term of the leases plus the term of any below-market fixed rate renewal options. The above and below-market lease values are amortized to rental revenues over the remaining initial term plus the term of any below-market fixed rate renewal options that are considered

bargain renewal options of the respective leases. The origination value of in-place leases is based on costs to execute similar leases including commissions and other related costs. The origination value of in-place leases also includes real estate taxes, insurance and an estimate of lost rent revenue at market rates during the estimated time required to lease up the property from vacant to the occupancy level at the date of acquisition.

Impairment. Carrying values for financial reporting purposes are reviewed for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of a property may not be fully recoverable. Examples of such events or changes in circumstances may include classifying an asset to be held for sale, changing the intended hold period or when an asset remains vacant significantly longer than expected. The intended use of an asset either held for sale or held for use can significantly impact how impairment is measured. If an asset is intended to be held for the long-term, the recoverability is based on the undiscounted future cash flows. If the asset carrying value is not supported on an undiscounted future cash flow basis, then the asset carrying value is measured against the lower of cost or the present value of expected cash flows over the expected hold period. An impairment charge to earnings is recognized for the excess of the asset's carrying value over the lower of cost or the present values of expected cash flows over the expected hold period. If an asset is intended to be sold, impairment is determined using the estimated fair value less costs to sell. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions, among other things, regarding current and future economic and market conditions and the availability of capital. We determine the estimated fair values based on its assumptions regarding rental rates, lease-up and holding periods, as well as sales prices. When available, current market information is used to determine capitalization and rental growth rates. If available, current comparative sales values may also be used to establish fair value. When market information is not readily available, the inputs are based on our understanding of market conditions and the experience of our management team. Actual results could differ significantly from our estimates. The discount rates used in the fair value estimates represent a rate commensurate with the indicated holding period with a premium layered on for risk.

Discontinued Operations. Effective January 1, 2014, we adopted the provisions of ASU 2014-08 which amended the definition of discontinued operations by limiting discontinued operations reporting to disposals that represent a strategic shift that should have or will have a major effect on our operations and financial results. Prior to January 1, 2014 we separately reported as discontinued operations the historical operating results attributable to properties sold or held for sale and the applicable gain or loss on the disposition of the properties. Although this application may affect the presentation of our results of operations for the periods that we have already reported, there will be no effect on our previously reported consolidated financial statements. The results of operations for real estate properties sold or held for sale during the year ended December 31, 2013 are included in discontinued operations for the year ended December 31, 2013. Our other 2015 and 2014 assets classified as held for sale do not qualify as discontinued operations and the operating results for the years ended December 31, 2015 and 2014 are presented within income from continuing operations in the accompanying consolidated statements of operations.

Revenue Recognition. We record rental revenue from operating leases on a straight-line basis over the term of the leases and maintain an allowance for estimated losses that may result from the inability of our tenants to make required payments. If tenants fail to make contractual lease payments that are greater than our allowance for doubtful accounts, security deposits and letters of credit, then we may have to recognize additional doubtful account charges in future periods. We monitor the liquidity and creditworthiness of our tenants on an on-going basis by reviewing their financial condition periodically as appropriate. Each period we review our outstanding accounts receivable, including straight-line rents, for doubtful accounts and provide allowances as needed. We also record lease termination fees when a tenant has executed a definitive termination agreement with us and the payment of the termination fee is not subject to any conditions that must be met or waived before the fee is due to us. If a tenant remains in the leased space following the execution of a definitive termination agreement, the applicable termination will be deferred and recognized over the term of such tenant's occupancy.

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Tenant expense reimbursement income includes payments and amounts due from tenants pursuant to their leases for real estate taxes, insurance and other recoverable property operating expenses and is recognized as revenues during the same period the related expenses are incurred.

Income Taxes. We elected to be taxed as a REIT under the Code and operate as such beginning with our taxable year ended December 31, 2010. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to our stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, we generally will not be subject to federal income tax to the extent we distribute qualifying dividends to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the IRS grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to stockholders. However, we believe we are organized and operate in such a manner as to qualify for treatment as a REIT.

Stock-Based Compensation and Other Long-Term Incentive Compensation. We follow the provisions of ASC 718, *Compensation-Stock Compensation*, to account for our stock-based compensation plan, which requires that the compensation cost relating to stock-based payment transactions be recognized in the financial statements and that the cost be measured on the fair value of the equity or liability instruments issued. We have adopted the Amended and Restated 2010 Equity Incentive Plan, which provides for the grant of restricted stock awards, performance share awards, unrestricted shares or any combination of the foregoing. Stock-based compensation is recognized as a general and administrative expense in the financial statements and measured at the fair value of the award on the date of grant. We estimate the forfeiture rate based on historical experience as well as expected behavior. The amount of the expense may be subject to adjustment in future periods depending on the specific characteristics of the stock-based award.

In addition, we have awarded long-term incentive target awards on an annual basis to our executives that are payable in shares of our common stock after the conclusion of each pre-established performance measurement period. The amount that may be earned under the long-term incentive plan is variable depending on the relative total shareholder return of our stock as compared to the total shareholder return of the MSCI U.S. REIT Index (RMS) and the FTSE NAREIT Equity Industrial Index over the pre-established performance measurement period. We estimate the fair value of the long-term incentive target awards using a Monte Carlo simulation model on the date of grant and at each reporting period as set forth below. These awards are recognized as compensation expense over the requisite performance period based on the fair value of the award at the balance sheet date.

The following table summarizes certain information with respect to the performance share awards:

<u>Performance Share Period</u>	<u>Fair Value</u> <u>December 31, 2015</u>	<u>Accrual</u> <u>December 31, 2015</u>	<u>Expense</u> <u>For the Year Ended December 31,</u>		
			<u>2015</u>	<u>2014</u>	<u>2013</u>
			(in thousands)		
January 1, 2015 - December 31, 2017	\$ 3,775	\$ 1,257	\$ 1,257	\$ —	\$ —
January 1, 2014 - December 31, 2016	3,245	2,161	1,463	698	—
January 1, 2013 - December 31, 2015	3,000	3,000	1,761	633	606
January 1, 2012 - December 31, 2014	—	—	—	(649)	421
January 1, 2011 - December 31, 2013	—	—	—	—	(93)
Total	<u>\$ 10,020</u>	<u>\$ 6,418</u>	<u>\$ 4,481</u>	<u>\$ 682</u>	<u>\$ 934</u>

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Contractual Obligations

Currently we have four outstanding contracts with third-party sellers to acquire four industrial properties. There is no assurance that we will acquire the properties under contract because the proposed acquisitions are subject to the completion of satisfactory due diligence and various closing conditions. The following table summarizes certain information with respect to the properties we have under contract:

<u>Market</u>	<u>Number of Buildings</u>	<u>Square Feet</u>	<u>Purchase Price (in thousands)</u>	<u>Assumed Debt (in thousands)</u>
Los Angeles	—	—	\$ —	\$ —
Northern New Jersey/New York City ¹	1	126,491	22,416	—
San Francisco Bay Area	1	30,000	5,250	—
Seattle	—	—	—	—
Miami	1	60,000	6,000	—
Washington, D.C./Baltimore	—	—	—	—
Total	3	216,491	\$ 33,666	\$ —

¹ Includes one improved land parcel consisting of 4.5 acres.

As of February 10, 2016, we have executed one non-binding letter of intent with a third-party seller to acquire one industrial property. The total purchase price for this industrial property is approximately \$6.4 million. In the normal course of business, we enter into non-binding letters of intent to purchase properties from third parties that may obligate us to make payments or perform other obligations upon the occurrence of certain events, including the execution of a purchase and sale agreement and satisfactory completion of various due diligence matters. There can be no assurance that we will enter into a purchase and sale agreement with respect to this property or otherwise complete any such prospective purchase on the terms described or at all.

As of February 10, 2016, we have two outstanding contracts with third-party purchasers to sell one property located in the San Francisco Bay Area market for a sales price of approximately \$8.2 million (net book value of \$5.0 million) and one property located in the Washington, D.C./Baltimore market for a sales price of approximately \$8.2 million (net book value of \$5.5 million). There is no assurance that we will sell the properties under contract because the proposed dispositions are subject to the completion of satisfactory due diligence and various closing conditions.

The following table summarizes our contractual obligations due by period as of December 31, 2015 (dollars in thousands):

<u>Contractual Obligations</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 Years</u>	<u>Total</u>
Debt	\$16,871	\$3,826	\$201,882	\$161,271	\$383,850
Debt interest payments	3,193	5,268	2,907	205	11,573
Operating lease commitments	245	509	534	416	1,704
Purchase obligations	33,666	—	—	—	33,666
Total	\$53,975	\$9,603	\$205,323	\$161,892	\$430,793

Non-GAAP Financial Measures

We use the following non-GAAP financial measures that we believe are useful to investors as key supplemental measures of our operating performance: funds from operations, or FFO, Adjusted EBITDA, net operating income, or NOI, same store NOI and cash-basis same store NOI. FFO, Adjusted EBITDA, NOI, same store NOI and cash-basis same store NOI should not be considered in isolation or as a substitute for measures of performance in accordance with GAAP. Further, our computation of FFO, Adjusted EBITDA, NOI, same store NOI and cash-basis same store NOI may not be comparable to FFO, Adjusted EBITDA, NOI, same store NOI and cash-basis same store NOI reported by other companies.

We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts (“NAREIT”), which defines FFO as net income (loss) (determined in accordance with GAAP), excluding gains (losses) from sales of property and impairment write-downs of depreciable real estate, plus depreciation and amortization on real estate assets and after adjustments for unconsolidated partnerships and joint ventures (which are calculated to reflect FFO on the same basis). We believe that presenting FFO provides useful information to investors regarding our operating performance because it is a measure of our operations without regard to specified non-cash items, such as real estate depreciation and amortization and gain or loss on sale of assets.

We believe that FFO is a meaningful supplemental measure of our operating performance because historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting alone to be insufficient. As a result, we believe that the use of FFO, together with the required GAAP presentations, provide a more complete understanding of our operating performance.

The following table reflects the calculation of FFO reconciled from net income (loss), net of preferred stock dividends for the three months ended December 31, 2015, 2014 and 2013 and for the years ended December 31, 2015, 2014 and 2013 (dollars in thousands except per share data):

	For the Three Months Ended December 31,				For the Three Months Ended December 31,			
	2015	2014	\$ Change	% Change	2014	2013	\$ Change	% Change
Net (loss) income, net of preferred stock dividends	\$ (331)	\$ 1,883	\$ (2,214)	n/a	\$ 1,883	\$ 2,810	\$ (927)	(33.0)%
Gain on sales of real estate investments	(4,248)	—	(4,248)	n/a	—	(2,778)	2,778	n/a
Depreciation and amortization								
Depreciation and amortization from continuing operations	12,065	5,123	6,942	135.5%	5,123	3,685	1,438	39.0%
Depreciation related to discontinued operations	—	—	—	n/a	—	—	—	n/a
Non-real estate depreciation	(23)	(28)	5	(17.9)%	(28)	(23)	(5)	21.7%
Allocation to participating securities ¹	(70)	(25)	(45)	180.0%	(25)	(23)	(2)	8.7%
Funds from operations attributable to common stockholders ²	\$ 7,393	\$ 6,953	\$ 440	6.3%	\$ 6,953	\$ 3,671	\$ 3,282	89.4%
Basic and diluted FFO per common share	\$ 0.17	\$ 0.20	\$ (0.02)	(12.3)%	\$ 0.20	\$ 0.15	\$ 0.05	32.9%
Weighted average basic and diluted common shares	42,906,538	35,381,477			35,381,477	24,833,304		

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	For the Year Ended December 31,				For the Year Ended December 31,			
	2015	2014	\$ Change	% Change	2014	2013	\$ Change	% Change
Net income, net of preferred stock dividends	\$ 11,036	\$ 7,153	\$ 3,883	54.3%	\$ 7,153	\$ 3,076	\$ 4,077	132.5%
Gain on sales of real estate investments	(10,567)	—	(10,567)	n/a	—	(2,778)	2,778	n/a
Depreciation and amortization								
Depreciation and amortization from continuing operations	36,026	19,170	16,856	87.9%	19,170	12,481	6,689	53.6%
Depreciation related to discontinued operations	—	—	—	n/a	—	101	(101)	n/a
Non-real estate depreciation	(102)	(101)	(1)	1.0%	(101)	(100)	(1)	1.0%
Allocation to participating securities ¹	(221)	(125)	(96)	76.8%	(125)	(91)	(34)	37.4%
Funds from operations attributable to common stockholders ²	<u>\$ 36,172</u>	<u>\$ 26,097</u>	<u>\$ 10,075</u>	<u>38.6%</u>	<u>\$ 26,097</u>	<u>\$ 12,689</u>	<u>\$13,408</u>	<u>105.7%</u>
Basic and diluted FFO per common share	<u>\$ 0.84</u>	<u>\$ 0.86</u>	<u>\$ (0.02)</u>	<u>(2.8)%</u>	<u>\$ 0.86</u>	<u>\$ 0.60</u>	<u>\$ 0.26</u>	<u>43.7%</u>
Weighted average basic and diluted common shares	<u>42,861,276</u>	<u>30,433,017</u>			<u>30,433,017</u>	<u>21,011,276</u>		

¹ To be consistent with the company's policies of determining whether instruments granted in share-based payment transactions are participating securities and accounting for earnings per share, the FFO per common share is adjusted for FFO distributed through declared dividends (if any) and allocated to all participating securities (weighted average common shares outstanding and unvested restricted shares outstanding) under the two-class method. Under this method, allocations were made to 403,865, 156,885 and 156,965 of weighted average unvested restricted shares outstanding for the three months ended December 31, 2015, 2014 and 2013, respectively, and 242,402, 157,386 and 156,203 for the years ended December 31, 2015, 2014 and 2013, respectively.

² Includes expensed acquisition costs of approximately \$1.1 million, \$2.0 million and \$1.4 million, respectively, for the three months ended December 31, 2015, 2014 and 2013 and approximately \$4.7 million, \$3.7 million and \$3.3 million, respectively, for the years ended December 31, 2015, 2014 and 2013.

We compute Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, gain on sales of real estate investments, acquisition costs and stock-based compensation. We believe that presenting Adjusted EBITDA provides useful information to investors regarding our operating performance because they are measures of our operations on an unleveraged basis before the effects of tax, non-cash depreciation, amortization expense and acquisition costs and stock-based compensation. By excluding interest expense, Adjusted EBITDA allow investors to measure our operating performance independent of our capital structure and indebtedness and, therefore, allow for more meaningful comparison of our operating performance between quarters as well as annual periods and for the comparison of our operating performance to that of other companies, both in the real estate industry and in other industries. As we are currently in a growth phase, acquisition costs are excluded from Adjusted EBITDA to allow for the comparison of our operating performance to that of stabilized companies.

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The following table reflects the calculation of Adjusted EBITDA reconciled from net income for the three months ended December 31, 2015, 2014 and 2013 and for the years ended December 31, 2015, 2014 and 2013 (dollars in thousands):

	For the Three Months Ended December 31,				For the Three Months Ended December 31,			
	2015	2014	\$ Change	% Change	2014	2013	\$ Change	% Change
Net income	\$ 560	\$ 2,774	\$ (2,214)	(79.8)%	\$ 2,774	\$ 3,701	\$ (927)	(25.0)%
Gain on sales of real estate investments	(4,248)	—	(4,248)	n/a	—	(2,778)	2,778	n/a
Depreciation and amortization from continuing operations	12,065	5,123	6,942	135.5%	5,123	3,685	1,438	39.0%
Depreciation related to discontinued operations	—	—	—	n/a	—	—	—	n/a
Interest expense, including amortization	3,095	1,869	1,226	65.6%	1,869	1,604	265	16.5%
Stock-based compensation	2,510	(247)	2,757	n/a	(247)	523	(770)	n/a
Acquisition costs	1,062	1,968	(906)	(46.0)%	1,968	1,437	531	37.0%
Adjusted EBITDA	<u>\$ 15,044</u>	<u>\$ 11,487</u>	<u>\$ 3,557</u>	<u>31.0%</u>	<u>\$ 11,487</u>	<u>\$ 8,172</u>	<u>\$ 3,315</u>	<u>40.6%</u>

	For the Year Ended December 31,				For the Year Ended December 31,			
	2015	2014	\$ Change	% Change	2014	2013	\$ Change	% Change
Net income	\$ 14,601	\$ 10,718	\$ 3,883	36.2%	\$ 10,718	\$ 6,641	\$ 4,077	61.4%
Gain on sales of real estate investments	(10,567)	—	(10,567)	n/a	—	(2,778)	2,778	n/a
Depreciation and amortization from continuing operations	36,026	19,170	16,856	87.9%	19,170	12,481	6,689	53.6%
Depreciation related to discontinued operations	—	—	—	n/a	—	101	(101)	n/a
Interest expense, including amortization	9,639	6,591	3,048	46.2%	6,591	6,214	377	6.1%
Stock-based compensation	6,081	2,060	4,021	195.2%	2,060	2,137	(77)	(3.6)%
Acquisition costs	4,713	3,740	973	26.0%	3,740	3,298	442	13.4%
Adjusted EBITDA	<u>\$ 60,493</u>	<u>\$ 42,279</u>	<u>\$ 18,214</u>	<u>43.1%</u>	<u>\$ 42,279</u>	<u>\$ 28,094</u>	<u>\$ 14,185</u>	<u>50.5%</u>

We compute NOI as rental revenues, including tenant expense reimbursements, less property operating expenses. We compute same store NOI as rental revenues, including tenant expense reimbursements, less property operating expenses on a same store basis. NOI excludes depreciation, amortization, general and administrative expenses, acquisition costs and interest expense. We compute cash-basis same store NOI as same store NOI excluding straight-line rents and amortization of lease intangibles. The same store pool for the comparison of the three months and years ended December 31, 2015 and 2014 includes all properties that were owned as of December 31, 2015 and since January 1, 2014 and excludes properties that were either disposed of prior to, held for sale to a third party or in redevelopment as of December 31, 2015. As of December 31, 2015, the same store pool consisted of 89 buildings aggregating approximately 6.3 million square feet representing approximately 57.0% of our total square feet owned. The same store pool for the comparison of the three months and years ended December 31, 2014 and 2013 includes all properties that were owned as of December 31, 2014 and since January 1, 2013 and excludes properties that were either disposed of prior to or held for sale to a third party as of December 31, 2014. As of December 31, 2014, the same store pool consisted of 65 buildings aggregating approximately 4.8 million square feet representing approximately 51.8% of our total square feet owned. We believe that presenting NOI, same store NOI and cash-basis same store NOI provides useful information to investors regarding our operating performance of our properties because NOI excludes certain items that are not considered to be controllable in connection with the management of the property, such as depreciation, amortization, general and administrative expenses, acquisition costs and interest expense. By presenting same store NOI and cash-basis same store NOI, the operating results on a same store basis are directly comparable from period to period.

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The following table reflects the calculation of NOI, same store NOI and cash-basis same store NOI reconciled from net income for the three months and the years ended December 31, 2015, 2014 and 2013 (dollars in thousands):

	For the Three Months Ended December 31,		\$ Change	% Change	For the Three Months Ended December 31,		\$ Change	% Change
	2015	2014			2014	2013		
Net income ¹	\$ 560	\$ 2,774	\$(2,214)	(79.8)%	\$ 2,774	\$ 3,701	\$ (927)	(25.0)%
Depreciation and amortization from continuing operations	12,065	5,123	6,942	135.5%	5,123	3,685	1,438	39.0%
Income from discontinued operations	—	—	—	n/a	—	(3,138)	3,138	n/a
General and administrative	4,747	1,842	2,905	157.7%	1,842	2,253	(411)	(18.2)%
Acquisition costs	1,062	1,968	(906)	(46.0)%	1,968	1,437	531	37.0%
Total other income and expenses	(1,157)	1,868	(3,025)	n/a	1,868	1,601	267	16.7%
Net operating income	17,277	13,575	3,702	27.3%	13,575	9,539	4,036	42.3%
Less non same store NOI	(6,326) ⁴	(3,236) ⁴	(3,090)	95.5%	(6,007) ⁵	(1,985) ⁵	(4,022)	202.6%
Same store NOI ²	<u>\$10,951</u>	<u>\$10,339</u>	<u>\$ 612</u>	<u>5.9%</u>	<u>\$ 7,568</u>	<u>\$ 7,554</u>	<u>\$ 14</u>	<u>0.2%</u>
Less straight-line rents and amortization of lease intangibles ³	(468)	(536)	68	(12.7)%	(560)	(645)	85	(13.2)%
Cash-basis same store NOI ²	<u>\$10,483</u>	<u>\$ 9,803</u>	<u>\$ 680</u>	<u>6.9%</u>	<u>\$ 7,008</u>	<u>\$ 6,909</u>	<u>\$ 99</u>	<u>1.4%</u>

¹ Includes approximately \$0.1 million, \$0 and \$0 of lease termination income for the three months ended December 31, 2015, 2014 and 2013, respectively, and approximately \$4.0 million of depreciation expense for three months ended December 31, 2015 related to the redevelopment of the South Main property as a result of the reduction of the useful lives of the original buildings.

² Includes approximately \$0.1 million, \$0 and \$0 of lease termination income for the three months ended December 31, 2015, 2014 and 2013, respectively.

³ Includes straight-line rents and amortization of lease intangibles for the same store pool only.

⁴ Includes 2014 and 2015 acquisitions including one property under redevelopment and one property held for sale with a gross book value of approximately \$6.3 million and accumulated depreciation and amortization of approximately \$1.3 million as of December 31, 2015.

⁵ Includes 2013 and 2014 acquisitions including one property held for sale with a gross book value of approximately \$6.9 million and accumulated depreciation and amortization of approximately \$0.6 million as of December 31, 2014.

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	For the Year Ended December 31,		\$ Change	% Change	For the Year Ended December 31,		\$ Change	% Change
	2015	2014			2014	2013		
Net income ¹	\$ 14,601	\$ 10,718	\$ 3,883	36.2%	\$ 10,718	\$ 6,641	\$ 4,077	61.4%
Depreciation and amortization from continuing operations	36,026	19,170	16,856	87.9%	19,170	12,481	6,689	53.6%
Income from discontinued operations	—	—	—	n/a	—	(4,190)	4,190	n/a
General and administrative	14,846	9,496	5,350	56.3%	9,496	8,423	1,073	12.7%
Acquisition costs	4,713	3,740	973	26.0%	3,740	3,298	442	13.4%
Total other income and expenses	(946)	6,590	(7,536)	n/a	6,590	6,105	485	7.9%
Net operating income	69,240	49,714	19,526	39.3%	49,714	32,758	16,956	51.8%
Less non same store NOI	(26,140) ⁴	(8,110) ⁴	(18,030)	222.3%	(19,163) ⁵	(4,117) ⁵	(15,046)	365.5%
Same store NOI ²	\$ 43,100	\$ 41,604	\$ 1,496	3.6%	\$ 30,551	\$ 28,641	\$ 1,910	6.7%
Less straight-line rents and amortization of lease intangibles ³	(2,842)	(2,568)	(274)	10.7%	(2,183)	(3,521)	1,338	(38.0)%
Cash-basis same store NOI ²	\$ 40,258	\$ 39,036	\$ 1,222	3.1%	\$ 28,368	\$ 25,120	\$ 3,248	12.9%

¹ Includes approximately \$0.3 million, \$0 and \$0.1 million of lease termination income for the years ended December 31, 2015, 2014 and 2013, respectively and approximately \$4.0 million of depreciation expense for the year ended December 31, 2015 related to the redevelopment of the South Main property as a result of the reduction of the useful lives of the original buildings.

² Includes approximately \$0.1 million, \$0 and \$32,000 of lease termination income for the years ended December 31, 2015, 2014 and 2013, respectively.

³ Includes straight-line rents and amortization of lease intangibles for the same store pool only.

⁴ Includes 2014 and 2015 acquisitions including one property under redevelopment and one property held for sale with a gross book value of approximately \$6.3 million and accumulated depreciation and amortization of approximately \$1.3 million as of December 31, 2015.

⁵ Includes 2013 and 2014 acquisitions including one property held for sale with a gross book value of approximately \$6.9 million and accumulated depreciation and amortization of approximately \$0.6 million as of December 31, 2014.

Cash-basis same store NOI increased by approximately \$1.2 million for the year ended December 31, 2015 compared to the same period from the prior year due primarily to increased occupancy of approximately 122,000 square feet at Garfield in the Los Angeles market during the three months ended December 31, 2015. Partially offsetting the increased occupancy at Garfield in 2015 is decreased occupancy of approximately 221,000 square feet at 130 Interstate in the Northern New Jersey/New York market and the free rent given to our tenant at our approximately 301,983 square foot property at 10th Avenue in the Miami market during the three months ended December 31, 2015. For the three months ended December 31, 2015 and 2014, approximately \$0.4 million and \$0.2 million, respectively, of contractual rent abatements were given to certain tenants in the same-store pool.

Item 7A. Quantitative And Qualitative Disclosures About Market Risk.

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business strategies, the primary market risk which we are exposed to is interest rate risk. We are exposed to interest rate changes primarily as a result of debt used to maintain liquidity, fund capital expenditures and expand our investment portfolio and operations. We seek to limit the impact of interest rate changes on earnings and cash

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flows and to lower our overall borrowing costs. As described below, some of our outstanding debt bears interest at variable rates, and we expect that some of our future outstanding debt will have variable interest rates. We may use interest rate caps to manage our interest rate risks relating to our variable rate debt. We expect to replace variable rate debt on a regular basis with fixed rate, long-term debt to finance our assets and operations.

As of December 31, 2015, we had \$200.0 million of borrowings outstanding under our Facility. Of the \$200.0 million outstanding on the Facility, \$150.0 million is subject to interest rate caps. See “Note 8 – Derivative Financial Instruments” in our notes to consolidated financial statements for more information regarding our interest rate caps. Amounts borrowed under our Facility bear interest at a variable rate based on LIBOR plus an applicable LIBOR margin. The weighted average interest rate on borrowings outstanding under our Facility was 1.80% as of December 31, 2015. If the LIBOR rate fluctuates by 0.25%, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows by approximately \$0.5 million annually on the total of the outstanding balances on our Facility as of December 31, 2015.

Item 8. Financial Statements And Supplementary Data.

See Part IV, Item 15 – “Exhibits and Financial Statement Schedules” beginning on page F-1 of this Annual Report on Form 10-K.

Item 9. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure.

None.

Item 9A. Controls And Procedures.

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer, President and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), and has concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective to give reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer, President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Management’s Annual Report on Internal Control Over Financial Reporting

Terreno Realty Corporation’s management is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system was designed to provide reasonable assurance to the company’s management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Terreno Realty Corporation’s management assessed the effectiveness of its internal control over financial reporting as of December 31, 2015. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013 framework). Based on its assessment, management of Terreno Realty Corporation believes that, as of December 31, 2015, the company’s internal control over financial reporting is effective based on those criteria. Terreno Realty Corporation’s independent auditors have issued an audit report on the effectiveness of the company’s internal control over financial reporting, as stated in their report included in this Annual Report on Form 10-K, (which expresses an unqualified opinion on the effectiveness of the company’s internal control over financial reporting as of December 31, 2015).

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Terreno Realty Corporation

We have audited Terreno Realty Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). Terreno Realty Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Terreno Realty Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Terreno Realty Corporation as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 10, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, CA
February 10, 2016

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2015 and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by Item 11 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2015 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 12 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2015 and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2015 and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2015 and is incorporated herein by reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules.

(a)1. and 2. *Financial Statements and Schedules*

The following consolidated financial information is included as a separate section of this Annual Report on Form 10-K beginning on page F-1 as follows:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2015 and 2014	F-2
Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013	F-3
Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013	F-4
Consolidated Statements of Equity for the years ended December 31, 2015, 2014 and 2013	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013	F-6
Notes to Consolidated Financial Statements	F-7
Schedule III – Real Estate Investments and Accumulated Depreciation	S-1

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted, or the required information is included in the consolidated financial statements and notes thereto.

3. *Exhibits*

The exhibits required to be filed by Item 601 of Regulation S-K are listed in the Exhibit Index at the end of this Annual Report on Form 10-K, which is incorporated by reference herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Terreno Realty Corporation

We have audited the accompanying consolidated balance sheets of Terreno Realty Corporation as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Terreno Realty Corporation at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, Terreno Realty Corporation changed its reporting of discontinued operations as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity".

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Terreno Realty Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 10, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, CA
February 10, 2016

Terreno Realty Corporation
Consolidated Balance Sheets
(in thousands – except share and per share data)

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
ASSETS		
Investments in real estate		
Land	\$ 491,217	\$ 388,007
Buildings and improvements	608,415	470,348
Construction in progress	24,919	—
Intangible assets	55,369	42,918
Total investments in properties	1,179,920	901,273
Accumulated depreciation and amortization	(77,641)	(45,446)
Net investments in properties	1,102,279	855,827
Properties held for sale, net	4,979	6,315
Net investments in real estate	1,107,258	862,142
Cash and cash equivalents	22,450	190,601
Restricted cash	2,658	6,963
Deferred financing costs, net	846	955
Other assets, net	18,926	14,074
Total assets	<u>\$ 1,152,138</u>	<u>\$ 1,074,735</u>
LIABILITIES AND EQUITY		
Liabilities		
Credit facility	\$ —	\$ —
Term loans payable, net	198,943	198,686
Senior unsecured notes, net	99,023	—
Mortgage loans payable, net	83,509	103,784
Security deposits	7,508	5,315
Intangible liabilities, net	3,853	3,556
Dividends payable	7,796	6,859
Accounts payable and other liabilities	18,424	9,499
Total liabilities	419,056	327,699
Commitments and contingencies (Note 13)		
Equity		
Stockholders' equity		
Preferred stock: \$0.01 par value, 100,000,000 shares authorized, and 1,840,000 and 1,840,000 shares (liquidation preference of \$25.00 per share) issued and outstanding, respectively	46,000	46,000
Common stock: \$0.01 par value, 400,000,000 shares authorized, and 43,310,272 and 42,869,463 shares issued and outstanding, respectively	430	428
Additional paid-in capital	687,448	700,755
Retained earnings	—	—
Accumulated other comprehensive loss	(796)	(147)
Total stockholders' equity	733,082	747,036
Total liabilities and equity	<u>\$ 1,152,138</u>	<u>\$ 1,074,735</u>

The accompanying notes are an integral part of these consolidated financial statements.

Terreno Realty Corporation
Consolidated Statements of Operations
(in thousands – except share and per share data)

	For the Year Ended December 31,		
	2015	2014	2013
REVENUES			
Rental revenues	\$ 75,899	\$ 54,128	\$ 35,871
Tenant expense reimbursements	19,996	14,747	9,658
Total revenues	<u>95,895</u>	<u>68,875</u>	<u>45,529</u>
COSTS AND EXPENSES			
Property operating expenses	26,655	19,161	12,771
Depreciation and amortization	36,026	19,170	12,481
General and administrative	14,846	9,496	8,423
Acquisition costs	4,713	3,740	3,298
Total costs and expenses	<u>82,240</u>	<u>51,567</u>	<u>36,973</u>
OTHER INCOME (EXPENSE)			
Interest and other income	18	1	109
Interest expense, including amortization	(9,639)	(6,591)	(6,214)
Gain on sales of real estate investments	10,567	—	—
Total other income and expenses	<u>946</u>	<u>(6,590)</u>	<u>(6,105)</u>
Income from continuing operations	14,601	10,718	2,451
Discontinued operations			
Income from discontinued operations	—	—	1,412
Gain on sales of real estate investments	—	—	2,778
Income from discontinued operations	<u>—</u>	<u>—</u>	<u>4,190</u>
Net income	14,601	10,718	6,641
Preferred stock dividends	(3,565)	(3,565)	(3,565)
Net income, net of preferred stock dividends	11,036	7,153	3,076
Allocation to participating securities	(78)	(27)	(20)
Net income available to common stockholders, net of preferred stock dividends	<u>\$ 10,958</u>	<u>\$ 7,126</u>	<u>\$ 3,056</u>
EARNINGS PER COMMON SHARE – BASIC AND DILUTED:			
Income (loss) from continuing operations available to common stockholders, net of preferred stock dividends	\$ 0.26	\$ 0.23	\$ (0.05)
Income from discontinued operations	—	—	0.20
Net income available to common stockholders, net of preferred stock dividends	<u>\$ 0.26</u>	<u>\$ 0.23</u>	<u>\$ 0.15</u>
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	<u>42,861,276</u>	<u>30,433,017</u>	<u>21,011,276</u>

The accompanying notes are an integral part of these consolidated financial statements.

Terreno Realty Corporation
Consolidated Statements of Comprehensive Income
(in thousands)

	<u>For the Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net income	\$14,601	\$10,718	\$ 6,641
Other comprehensive loss: cash flow hedge adjustment	(649)	(147)	—
Comprehensive income	<u>\$13,952</u>	<u>\$10,571</u>	<u>\$ 6,641</u>

The accompanying notes are an integral part of these consolidated financial statements.

Terreno Realty Corporation
Consolidated Statements of Equity
(in thousands – except share data)

	Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
		Number of Shares	Amount				
Balance as of December 31, 2012	\$46,000	13,434,558	\$ 133	\$214,195	\$ (5,054)	\$ —	\$255,274
Net income	—	—	—	—	6,641	—	6,641
Issuance of common stock, net of issuance costs of \$728	—	11,515,793	116	190,632	—	—	190,748
Repurchase of common stock	—	(9,122)	—	(160)	—	—	(160)
Issuance of restricted stock	—	48,891	—	—	—	—	—
Stock-based compensation	—	—	—	1,203	—	—	1,203
Common stock dividends	—	—	—	(11,306)	—	—	(11,306)
Preferred stock dividends	—	—	—	(1,978)	(1,587)	—	(3,565)
Balance as of December 31, 2013	46,000	24,990,120	249	392,586	—	—	438,835
Net income	—	—	—	—	10,718	—	10,718
Issuance of common stock, net of issuance costs of \$782	—	17,841,140	179	319,302	—	—	319,481
Repurchase of common stock	—	(12,943)	—	(284)	—	—	(284)
Issuance of restricted stock	—	51,146	—	—	—	—	—
Stock-based compensation	—	—	—	1,378	—	—	1,378
Common stock dividends	—	—	—	(12,227)	(7,153)	—	(19,380)
Preferred stock dividends	—	—	—	—	(3,565)	—	(3,565)
Other comprehensive loss	—	—	—	—	—	(147)	(147)
Balance as of December 31, 2014	46,000	42,869,463	428	700,755	—	(147)	747,036
Net income	—	—	—	—	14,601	—	14,601
Issuance of common stock, net of issuance costs of \$69	—	153,044	2	3,051	—	—	3,053
Repurchase of common stock	—	(20,322)	—	(512)	—	—	(512)
Issuance of restricted stock	—	308,087	—	—	—	—	—
Stock-based compensation	—	—	—	1,600	—	—	1,600
Common stock dividends	—	—	—	(17,446)	(11,036)	—	(28,482)
Preferred stock dividends	—	—	—	—	(3,565)	—	(3,565)
Other comprehensive loss	—	—	—	—	—	(649)	(649)
Balance as of December 31, 2015	\$46,000	43,310,272	\$ 430	\$687,448	\$ —	\$ (796)	\$733,082

The accompanying notes are an integral part of these consolidated financial statements.

Terreno Realty Corporation
Consolidated Statements of Cash Flows
(in thousands)

	For the Year Ended December 31,		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 14,601	\$ 10,718	\$ 6,641
Adjustments to reconcile net income to net cash provided by operating activities			
Straight-line rents	(3,889)	(2,744)	(3,005)
Amortization of lease intangibles	(1,925)	(1,099)	(864)
Depreciation and amortization	36,026	19,170	12,481
Depreciation related to discontinued operations	—	—	101
Gain on sales of real estate investments	(10,567)	—	(2,778)
Deferred financing cost and mortgage premium amortization	393	279	252
Stock-based compensation	6,081	2,060	2,137
Changes in assets and liabilities			
Other assets	(1,252)	(1,510)	(576)
Accounts payable and other liabilities	2,600	2,447	(894)
Net cash provided by operating activities	42,068	29,321	13,495
CASH FLOWS FROM INVESTING ACTIVITIES			
Restricted cash	4,535	(4,390)	(465)
Cash paid for property acquisitions	(263,209)	(225,797)	(209,338)
Proceeds from sales of real estate investments	23,671	—	17,469
Additions to construction in progress	(1,510)	—	—
Additions to buildings, improvements and leasing costs	(18,846)	(19,729)	(9,531)
Net cash used in investing activities	(255,359)	(249,916)	(201,865)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock	3,122	320,263	191,475
Issuance costs on issuance of common stock	(46)	(630)	(648)
Repurchase of common stock	(512)	(284)	(160)
Purchase of derivative instrument	(343)	(835)	—
Borrowings on credit facility	—	115,000	62,500
Payments on credit facility	—	(146,000)	(96,929)
Borrowings on term loans payable	—	150,000	50,000
Borrowings on senior unsecured notes	100,000	—	—
Payments on mortgage loans payable	(24,844)	(12,267)	(2,852)
Payment of deferred financing costs	(1,127)	(1,705)	(723)
Dividends paid to common stockholders	(27,545)	(15,770)	(9,669)
Dividends paid to preferred stockholders	(3,565)	(3,565)	(3,565)
Net cash provided by financing activities	45,140	404,207	189,429
Net (decrease) increase in cash and cash equivalents	(168,151)	183,612	1,059
Cash and cash equivalents at beginning of year	190,601	6,989	5,930
Cash and cash equivalents at end of year	<u>\$ 22,450</u>	<u>\$ 190,601</u>	<u>\$ 6,989</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid for interest, net of capitalized interest	\$ 8,382	\$ 6,242	\$ 6,413
Supplemental disclosures of non-cash transactions			
Accounts payable related to capital improvements	\$ 5,195	\$ 2,353	\$ 1,685
Reconciliation of cash paid for property acquisitions			
Acquisition of properties	\$ 271,523	\$ 236,747	\$ 212,434
Assumption of mortgage loans payable	(4,796)	(8,497)	—
Mortgage premiums	(60)	(344)	—
Assumption of other assets and liabilities	(3,458)	(2,109)	(3,096)
Net cash paid for property acquisitions	<u>\$ 263,209</u>	<u>\$ 225,797</u>	<u>\$ 209,338</u>

The accompanying notes are an integral part of these consolidated financial statements.

Terreno Realty Corporation
Notes to Consolidated Financial Statements

Note 1. Organization

Terreno Realty Corporation (“Terreno”, and together with its subsidiaries, the “Company”) acquires, owns and operates 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. As of December 31, 2015, the Company owned 148 buildings (including one building held for sale) aggregating approximately 11.1 million square feet (unaudited), one redevelopment property expected to contain approximately 0.2 million square feet (unaudited) and two improved land parcels consisting of 3.5 acres (unaudited).

The Company commenced operations upon completion of an initial public offering (“IPO”) and a concurrent private placement of common stock purchased by the Company’s executive management on February 16, 2010. The Company is an internally managed Maryland corporation and elected to be taxed as a real estate investment trust (“REIT”) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”) commencing with its taxable year ended December 31, 2010.

Note 2. Significant Accounting Policies

Basis of Presentation. The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The accompanying consolidated financial statements include all of the Company’s accounts and its subsidiaries and all intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Capitalization of Costs. The Company capitalizes costs directly related to the redevelopment, expansion and renovation of its investment in real estate. Costs associated with such projects are capitalized as incurred. If the project is abandoned, these costs are expensed during the period in which the redevelopment project is abandoned. Costs considered for capitalization include, but are not limited to, construction costs, interest, real estate taxes and insurance, if appropriate. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress. In the event that the activities to ready the asset for its intended use are suspended, the capitalization period will cease until such activities are resumed. Costs incurred for maintaining and repairing properties, which do not extend their useful lives, are expensed as incurred.

Interest is capitalized based on actual capital expenditures from the period when redevelopment, expansion or renovation commences until the asset is ready for its intended use, at the weighted average borrowing rate during the period.

Investments in Real Estate. Investments in real estate, including tenant improvements, leasehold improvements and leasing costs, are stated at cost, less accumulated depreciation, unless circumstances indicate that the cost cannot be recovered, in which case, an adjustment to the carrying value of the property is made to reduce it to its estimated fair value. The Company also reviews the impact of above and below-market leases, in-place leases and lease origination costs for acquisitions and records an intangible asset or liability accordingly.

Impairment. Carrying values for financial reporting purposes are reviewed for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of a property may not be fully recoverable. Examples of such events or changes in circumstances may include classifying an asset to be held for sale, changing the intended hold period or when an asset remains vacant significantly longer than

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expected. The intended use of an asset either held for sale or held for use can significantly impact how impairment is measured. If an asset is intended to be held for the long-term, the recoverability is based on the undiscounted future cash flows. If the asset carrying value is not supported on an undiscounted future cash flow basis, then the asset carrying value is measured against the lower of cost or the present value of expected cash flows over the expected hold period. An impairment charge to earnings is recognized for the excess of the asset's carrying value over the lower of cost or the present values of expected cash flows over the expected hold period. If an asset is intended to be sold, impairment is determined using the estimated fair value less costs to sell. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions, among other things, regarding current and future economic and market conditions and the availability of capital. The Company determines the estimated fair values based on its assumptions regarding rental rates, lease-up and holding periods, as well as sales prices. When available, current market information is used to determine capitalization and rental growth rates. If available, current comparative sales values may also be used to establish fair value. When market information is not readily available, the inputs are based on the Company's understanding of market conditions and the experience of the Company's management team. Actual results could differ significantly from the Company's estimates. The discount rates used in the fair value estimates represent a rate commensurate with the indicated holding period with a premium layered on for risk. There were no impairment charges recorded during the years ended December 31, 2015, 2014 or 2013.

Property Acquisitions. Upon acquisition of a property, which are accounted for as business combinations, the Company estimates the fair value of acquired tangible assets (consisting generally of land, buildings and improvements) and intangible assets and liabilities (consisting generally of the above and below-market leases and the origination value of all in-place leases). The Company determines fair values using replacement cost, estimated cash flow projections and other valuation techniques and applying appropriate discount and capitalization rates based on available market information. Mortgage loans assumed in connection with acquisitions are recorded at their fair value using current market interest rates for similar debt at the date of acquisition. Acquisition-related costs associated with business combinations are expensed as incurred.

The fair value of the tangible assets is determined by valuing the property as if it were vacant. Land values are derived from current comparative sales values, when available, or management's estimates of the fair value based on market conditions and the experience of the Company's management team. Building and improvement values are calculated as replacement cost less depreciation, or management's estimates of the fair value of these assets using discounted cash flows analyses or similar methods. The fair value of the above and below-market leases is based on the present value of the difference between the contractual amounts to be received pursuant to the acquired leases (using a discount rate that reflects the risks associated with the acquired leases) and the Company's estimate of the market lease rates measured over a period equal to the remaining term of the leases plus the term of any below-market fixed rate renewal options. The above and below-market lease values are amortized to rental revenues over the remaining initial term plus the term of any below-market fixed rate renewal options that are considered bargain renewal options of the respective leases. The total net impact to rental revenues due to the amortization of above and below-market leases was a net increase of approximately \$1.9 million, \$1.1 million and \$0.9 million, respectively, for the years ended 2015, 2014 and 2013. The origination value of in-place leases is based on costs to execute similar leases including commissions and other related costs. The origination value of in-place leases also includes real estate taxes, insurance and an estimate of lost rental revenue at market rates during the estimated time required to lease up the property from vacant to the occupancy level at the date of acquisition. The remaining weighted average lease term related to these intangible assets and liabilities as of December 31, 2015 is 3.0 years. As of December 31, 2015 and 2014, the Company's intangible assets and liabilities, including properties held for sale, consisted of the following (dollars in thousands):

	December 31, 2015			December 31, 2014		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
In-place leases	\$ 51,941	\$ (28,678)	\$ 23,263	\$ 39,413	\$ (17,154)	\$ 22,259
Above-market leases	\$ 3,977	\$ (2,917)	\$ 1,060	\$ 4,079	\$ (2,596)	\$ 1,483
Below-market leases	\$ (7,820)	\$ 3,967	\$ (3,853)	\$ (7,188)	\$ 3,632	\$ (3,556)

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Projected net amortization of the intangible assets and liabilities for the next five years and thereafter as of December 31, 2015 is as follows (dollars in thousands):

2016	\$ 8,416
2017	5,686
2018	2,909
2019	1,607
2020	902
Thereafter	950
Total	<u>\$20,470</u>

Depreciation and Useful Lives of Real Estate and Intangible Assets. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets or liabilities. The following table reflects the standard depreciable lives typically used to compute depreciation and amortization. However, such depreciable lives may be different based on the estimated useful life of such assets or liabilities.

<u>Description</u>	<u>Standard Depreciable Life</u>
Land	Not depreciated
Building	40 years
Building Improvements	5-40 years
Tenant Improvements	Shorter of lease term or useful life
Leasing Costs	Lease term
In-place leases	Lease term
Above/Below-Market Leases	Lease term

Discontinued Operations. The Company considers a property to be classified as discontinued operations when it meets the criteria established under Accounting Standards Update (“ASU”) 2014-08, *Presentation of Financial Statements* (Topic 205) and *Property, Plant and Equipment* (Topic 360), *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. Disposals that represent a strategic shift that should have or will have a major effect on the Company’s operations and financial results qualify as discontinued operations. Prior to January 1, 2014, the Company separately reported as discontinued operations the historical operating results attributable to properties sold or held for sale and the applicable gain or loss on the disposition of the properties. Although this application may affect the presentation of the Company’s results of operations for the periods that it has already reported, there will be no effect on its previously reported consolidated financial statements.

Held for Sale Assets. The Company considers a property to be held for sale when it meets the criteria established under Accounting Standards Codification (“ASC”) 360, *Property, Plant, and Equipment* (Note 5). Properties held for sale are reported at the lower of the carrying amount or fair value less estimated costs to sell and are not depreciated while they are held for sale.

Cash and Cash Equivalents. Cash and cash equivalents consists of cash held in a major banking institution and other highly liquid short-term investments with original maturities of three months or less. Cash equivalents are generally invested in U.S. government securities, government agency securities or money market accounts.

Restricted Cash. Restricted cash includes cash held in escrow in connection with property acquisitions and reserves for certain capital improvements, leasing, interest and real estate tax and insurance payments as required by certain mortgage loan obligations.

Revenue Recognition. The Company records rental revenue from operating leases on a straight-line basis over the term of the leases and maintains an allowance for estimated losses that may result from the inability of its tenants to make required payments. If tenants fail to make contractual lease payments that are greater than the Company's allowance for doubtful accounts, security deposits and letters of credit, then the Company may have to recognize additional doubtful account charges in future periods. The Company monitors the liquidity and creditworthiness of its tenants on an on-going basis by reviewing their financial condition periodically as appropriate. Each period the Company reviews its outstanding accounts receivable, including straight-line rents, for doubtful accounts and provides allowances as needed. The Company also records lease termination fees when a tenant has executed a definitive termination agreement with the Company and the payment of the termination fee is not subject to any conditions that must be met or waived before the fee is due to the Company. If a tenant remains in the leased space following the execution of a definitive termination agreement, the applicable termination will be deferred and recognized over the term of such tenant's occupancy.

Tenant expense reimbursement income includes payments and amounts due from tenants pursuant to their leases for real estate taxes, insurance and other recoverable property operating expenses and is recognized as revenues during the same period the related expenses are incurred.

As of December 31, 2015 and 2014, approximately \$14.9 million and \$10.6 million, respectively, of straight-line rent and accounts receivable, net of allowances of approximately \$0.2 million and \$0.4 million as of December 31, 2015 and 2014, respectively, were included as a component of other assets in the accompanying consolidated balance sheets.

Deferred Financing Costs. Costs incurred in connection with financings are capitalized and amortized to interest expense using the effective interest method over the term of the related loan. Deferred financing costs associated with the revolving credit facility are classified as an asset and deferred financing costs associated with debt liabilities are reported as a direct deduction from the carrying amount of the debt liability in the accompanying consolidated balance sheets. Deferred financing costs related to the revolving credit facility and debt liabilities are shown at cost, net of accumulated amortization in the aggregate of approximately \$3.4 million and \$2.6 million as of December 31, 2015 and 2014, respectively.

Mortgage Premiums. Mortgage premiums represent the excess of the fair value of debt assumed over the principal value of debt assumed in connection with property acquisitions. The mortgage premiums are being amortized to interest expense over the term of the related debt instrument using the effective interest method. As of December 31, 2015 and 2014, the net unamortized mortgage premiums were approximately \$0.2 million and \$0.6 million, respectively, and were included as a component of mortgage loans payable in the accompanying consolidated balance sheets.

Income Taxes. The Company elected to be taxed as a REIT under the Code and operates as such beginning with its taxable year ended December 31, 2010. To qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income to its stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Company generally will not be subject to federal income tax to the extent it distributes qualifying dividends to its stockholders. If it fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the IRS grants it relief under certain statutory provisions. Such an event could materially adversely affect the Company's net income and net cash available for distribution to stockholders. However, the Company believes it is organized and operates in such a manner as to qualify for treatment as a REIT.

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ASC 740-10, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740-10 requires the evaluation of tax positions taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold are recorded as a tax expense in the current year. As of December 31, 2015 and 2014, the Company did not have any unrecognized tax benefits and does not believe that there will be any material changes in unrecognized tax positions over the next 12 months. The Company's tax returns are subject to examination by federal, state and local tax jurisdictions beginning with the 2010 calendar year.

Stock-Based Compensation and Other Long-Term Incentive Compensation. The Company follows the provisions of ASC 718, *Compensation-Stock Compensation*, to account for its stock-based compensation plan, which requires that the compensation cost relating to stock-based payment transactions be recognized in the financial statements and that the cost be measured on the fair value of the equity or liability instruments issued. The Company has adopted the Amended and Restated 2010 Equity Incentive Plan, which provides for the grant of restricted stock awards, performance share awards, unrestricted shares or any combination of the foregoing. Stock-based compensation is recognized as a general and administrative expense in the accompanying consolidated statements of operations and measured at the fair value of the award on the date of grant. The Company estimates the forfeiture rate based on historical experience as well as expected behavior. The amount of the expense may be subject to adjustment in future periods depending on the specific characteristics of the stock-based award.

In addition, the Company has awarded long-term incentive target awards (the "Performance Share awards") to its executives that may be payable in shares of the Company's common stock after the conclusion of each pre-established performance measurement period. The amount that may be earned under the Performance Share awards is variable depending on the relative total shareholder return of the Company's common stock as compared to the total shareholder return of the MSCI U.S. REIT Index (RMS) and the FTSE NAREIT Equity Industrial Index over the pre-established performance measurement period. The Company estimates the fair value of the Performance Share awards using a Monte Carlo simulation model on the date of grant and at each reporting period. The Performance Share awards are recognized as compensation expense over the requisite performance period based on the fair value of the Performance Share awards at the balance sheet date.

Use of Derivative Financial Instruments. ASC 815, *Derivatives and Hedging*, provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why the Company uses derivative instruments, (b) how the Company accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect the Company's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments.

The Company records all derivatives on the accompanying consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

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As of December 31, 2015, the Company had three interest rate caps to hedge the variable cash flows associated with \$150.0 million of its existing variable-rate term loans. The caps have a notional value of \$150.0 million and will effectively cap the annual interest rate payable on \$50.0 million for the period from December 1, 2014 (effective date) to May 1, 2021 at 4.0% plus 1.75% to 2.30%, depending on leverage, \$50.0 million for the period from September 1, 2015 (effective date) to April 1, 2019 at 4.0% plus 1.50% to 2.05%, depending on leverage, and \$50.0 million for the period from September 1, 2015 (effective date) to February 3, 2020, at 4.0% plus 1.50% to 2.05%, depending on leverage. The Company records all derivative instruments on a gross basis in other assets on the accompanying consolidated balance sheets, and accordingly, there are no offsetting amounts that net assets against liabilities. As of December 31, 2015 and 2014, the fair value of the interest rate caps was approximately \$0.4 million and \$0.7 million, respectively.

Fair Value of Financial Instruments. ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also provides guidance for using fair value to measure financial assets and liabilities. ASC 820 requires disclosure of the level within the fair value hierarchy in which the fair value measurements fall, including measurements using quoted prices in active markets for identical assets or liabilities (Level 1), quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active (Level 2), and significant valuation assumptions that are not readily observable in the market (Level 3).

New Accounting Standards. In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, their final standard on revenue from contracts with customers. The guidance specifically notes that lease contracts with customers are a scope exception. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods (including interim periods), beginning after December 15, 2017, and early adoption is not permitted. The Company will adopt the guidance effective January 1, 2018 and is currently assessing the impact on its consolidated financial statements and notes to its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, update to ASC subtopic 250-40, *Presentation of Financial Statements-Going Concern*. The amendments require management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principals that are currently in the U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term “substantial doubt”, (2) require an evaluation every reporting period including interim periods, (3) provide principals for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016, and early adoption is permitted. The Company will adopt the guidance effective January 1, 2017 and is currently assessing the impact on its consolidated financial statements and notes to its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest – Simplifying the Presentation of Debt Issuance Costs* to simplify the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for public companies for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years and should be applied retrospectively. Early adoption is permitted for financial statements that have not been previously issued. Upon transition, an entity is required to comply with the applicable disclosures for a change in accounting principle. The Company has adopted this standard effective December 31, 2015 and applied the change in accounting principle to the consolidated financial statements. As a result, the Company reclassified \$2.6 million and \$2.0 million in total deferred financing costs to debt as of December 31, 2015 and December 31, 2014,

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respectively, on the Company's accompanying consolidated balance sheets. Deferred financing costs related to the Company's revolving credit facility remains classified as an asset on the Company's consolidated balance sheets. The adoption of ASU 2015-3 had no impact on the Company's consolidated results of operations or cash flows.

Segment Disclosure. ASC 280, *Segment Reporting*, establishes standards for reporting financial and descriptive information about an enterprise's reportable segment. The Company has determined that it has one reportable segment, with activities related to investing in real estate. The Company's investments in real estate are geographically diversified and the chief operating decision makers evaluate operating performance on an individual asset level. As each of the Company's assets has similar economic characteristics, the assets have been aggregated into one reportable segment.

Note 3. Concentration of Credit Risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents. The Company may maintain deposits in federally insured financial institutions in excess of federally insured limits. However, the Company's management believes the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

As of December 31, 2015, the Company owned 43 buildings and approximately 2.7 million square feet (unaudited) located in Northern New Jersey/New York City, which accounted for approximately 23.8% of its annualized base rent and 24 buildings and approximately 2.6 million square feet (unaudited) located in Washington, D.C./Baltimore, which accounted for approximately 23.5% of its annualized base rent. Such annualized base rent percentages are based on contractual base rent from leases in effect as of December 31, 2015, excluding any partial or full rent abatements.

Other real estate companies compete with the Company in its real estate markets. This results in competition for tenants to occupy space. The existence of competing properties could have a material impact on the Company's ability to lease space and on the level of rent that can be achieved. The Company had no tenants that accounted for greater than approximately 10% of the rental revenues for the years ended December 31, 2015, 2014 and 2013.

Note 4. Investments in Real Estate

During the year ended December 31, 2015, the Company acquired 29 industrial buildings containing 2,272,653 square feet (unaudited), including the assumption of a mortgage loan with a total principal amount of approximately \$4.8 million which bears interest at a fixed interest rate of 5.71% and matures in March 2016. The mortgage loan payable is secured by a property and requires monthly interest and principal payments until maturity and is generally non-recourse. The total aggregate initial investment was approximately \$271.5 million, of which \$125.8 million was recorded to land, \$131.1 million to buildings and improvements, \$14.6 million to intangible assets and \$2.9 million to intangible liabilities.

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The following table sets forth the wholly-owned industrial properties the Company acquired during the year ended December 31, 2015:

<u>Property Name</u>	<u>Location</u>	<u>Acquisition Date</u>	<u>Number of Buildings (Unaudited)</u>	<u>Square Feet (Unaudited)</u>	<u>Purchase Price (in thousands) ¹</u>
10100 NW 25th	Doral, FL	January 23, 2015	1	106,810	\$ 9,875
V Street	Washington, D.C.	January 29, 2015	6	820,207	115,500
9070 Junction	Annapolis Junction, MD	February 19, 2015	1	115,287	10,360
NW 81st	Medley, FL	February 27, 2015	2	89,264	8,500
Ahern II	Union City, CA	March 26, 2015	1	64,754	7,375
Kent 190th	Kent, WA	April 16, 2015	1	115,300	11,150
Olympic	Tukwila, WA	April 23, 2015	1	34,200	3,200
Kent Corporate Park	Kent, WA	July 2, 2015	4	138,154	12,250
Miami International Trade Center	Medley, FL	September 3, 2015	4	154,552	17,250
180 Manor	East Rutherford, NJ	October 15, 2015	1	84,720	9,338
4225 2nd Avenue	Seattle, WA	October 26, 2015	1	50,832	8,285
22 Madison	Fairfield, NJ	November 20, 2015	1	39,785	3,200
Kent 202	Kent, WA	December 14, 2015	1	158,168	14,875
Central Pacific Business Park II	Union City, CA	December 29, 2015	4	300,620	37,300
Total			29	2,272,653	\$ 268,458

¹ Excludes intangible liabilities and assumed mortgage premiums, if any. The total aggregate investment was approximately \$271.5 million.

The Company recorded revenues and net income for the year ended December 31, 2015 of approximately \$11.9 million and \$1.0 million, respectively, related to the 2015 acquisitions.

During year ended December 31, 2014, the Company acquired 29 industrial buildings containing 2,266,082 square feet (unaudited), one improved land parcel consisting of 1.2 acres (unaudited), including the assumption of two mortgage loans with a total principal amount of approximately \$8.5 million which bore interest at a weighted average interest rate of 5.74% and mature in 2015 and 2016. Each of the mortgage loans payable is secured by separate property and requires monthly interest and principal payments until maturity and is generally non-recourse. The total aggregate initial investment was approximately \$236.7 million, of which \$88.7 million was recorded to land, \$136.0 million to buildings and improvements, \$12.0 million to intangible assets and \$1.3 million to intangible liabilities.

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The following table sets forth the wholly-owned industrial properties the Company acquired during the year ended December 31, 2014:

<u>Property Name</u>	<u>Location</u>	<u>Acquisition Date</u>	<u>Number of Buildings (Unaudited)</u>	<u>Square Feet (Unaudited)</u>	<u>Purchase Price (in thousands) ¹</u>
SW 34th Street	Renton, WA	February 11, 2014	1	62,004	\$ 6,600
Parkway	Hanover, MD	March 26, 2014	1	158,769	18,000
Pulaski	Bayonne, NJ	March 31, 2014	1	98,049	9,200
747 Glasgow	Inglewood, CA	April 22, 2014	1	19,326	3,450
Hampton	Capitol Heights, MD	May 13, 2014	1	138,780	18,050
Burroughs	San Leandro, CA	May 14, 2014	3	129,279	13,328
California	Corona, CA	June 5, 2014	1	89,819	7,815
Las Hermanas ²	Compton, CA	June 12, 2014	1	23,735	4,020
South Main II ³	Carson, CA	July 18, 2014	1	33,769	8,500
79th Ave South	Kent, WA	July 25, 2014	1	35,018	2,770
Auburn 1307	Auburn, WA	August 22, 2014	1	91,607	9,530
3401 Lind	Renton, WA	October 3, 2014	1	113,170	9,975
900 Hart	Rahway, NJ	October 8, 2014	1	84,000	7,205
Kent 216th	Kent, WA	October 24, 2014	1	106,910	9,214
9020 Junction	Annapolis Junction, MD	November 17, 2014	1	96,666	13,800
11300 NW 131st	Medley, FL	November 19, 2014	1	85,000	8,925
Terminal Way	Avenel, NJ	November 25, 2014	2	80,200	7,445
14605 Miller	Fontana, CA	December 2, 2014	1	265,500	22,899
Central Pacific Business Park I	Union City, CA	December 10, 2014	3	170,129	23,800
75th Ave	Landover, MD	December 17, 2014	5	384,352	31,215
Total			29	2,266,082	\$ 235,741

¹ Excludes intangible liabilities and assumed mortgage premiums, if any. The total aggregate investment was approximately \$236.7 million.

² Includes an improved land parcel consisting of 1.2 acres (unaudited) that is separately leased for trailer storage and parking.

³ Includes a 34,000 square foot (unaudited) office building under redevelopment.

The Company recorded revenues and net income for the year ended December 31, 2014 of approximately \$7.0 million and \$2.9 million, respectively, related to the 2014 acquisitions.

The above assets and liabilities were recorded at fair value, which uses Level 3 inputs. The properties were acquired from unrelated third parties using existing cash on hand, net of assumed mortgage loans payable and borrowings under the credit facility and were accounted for as business combinations.

During the year ended December 31, 2015, the Company began redevelopment on an approximately 210,000 square foot (unaudited) distribution building and an approximately 34,000 square foot (unaudited) office building with an aggregate initial investment of approximately \$23.8 million. The Company incurred additional depreciation expense of approximately \$4.0 million during the year ended December 31, 2015 related to the redevelopment of the Company's South Main Street property as a result of the reduction of the original buildings useful lives. The Company capitalized interest associated with redevelopment and expansion activities of approximately \$0.3 million, \$0.3 million and \$0.2 million, respectively, during the years ended December 31, 2015, 2014 and 2013.

[Table of Contents](#)**Pro Forma Financial Information:**

The following supplementary pro forma financial information presents the results of operations of the Company for the years ended December 31, 2015 and 2014 as if all of the Company's acquisitions during the year ended December 31, 2015 occurred on January 1, 2014. The following pro forma results for the years ended December 31, 2015 and 2014 have been presented for comparative purposes only and are not necessarily indicative of the results of operations that would have actually occurred had all transactions taken place on January 1, 2014, or of future results of operations (dollars in thousands, except per share data).

	For the Year Ended December 31,	
	2015	2014
	(Unaudited)	
Total revenues	\$ 100,917	\$ 85,777
Net income available to common stockholders, net of preferred stock dividends	15,841	3,661
Basic and diluted net income available to common stockholders per share, net of preferred stock dividends	\$ 0.37	\$ 0.12

Note 5. Held for Sale/Disposed Assets

The Company considers a property to be held for sale when it meets the criteria established under ASC 360, *Property, Plant, and Equipment*. Properties held for sale are reported at the lower of the carrying amount or fair value less estimated costs to sell and are not depreciated while they are held for sale. As of December 31, 2015, the Company has entered into an agreement with a third-party purchaser to sell one property located in the San Francisco Bay Area market for a sales price of approximately \$8.2 million (net book value of approximately \$5.0 million). The sale of the property is subject to the purchaser's completion of satisfactory due diligence and various closing conditions.

During the year ended December 31, 2015 the Company sold one property located in the San Francisco Bay Area market for a sales price of approximately \$13.4 million, resulting in a gain of approximately \$6.3 million and one property in the Washington, D.C./Baltimore market for a sales price of approximately \$11.2 million, resulting in a gain of approximately \$4.3 million. During the year ended December 31, 2013, the Company sold one property located in the Northern New Jersey/New York City market for a sales price of approximately \$19.0 million, resulting in a gain of approximately \$2.8 million.

The following summarizes the condensed results of operations of the property held for sale as of December 31, 2015 for the years ended December 31, 2015, 2014, and 2013 (dollars in thousands):

	For the Year Ended December 31,		
	2015	2014	2013
Rental revenues	\$ 516	\$ 500	\$ 499
Tenant expense reimbursements	183	189	165
Property operating expenses	(207)	(212)	(191)
Depreciation and amortization	(156)	(150)	(139)
Income from operations	\$ 336	\$ 327	\$ 334

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The following summarizes the condensed results of operations of the properties sold during the year ended December 31, 2015 for the years ended December 31, 2015, 2014 and 2013 (dollars in thousands):

	For the Year Ended December 31,		
	2015	2014	2013
Rental revenues	\$ 933	\$ 1,456	\$ 1,312
Tenant expense reimbursements	240	436	363
Property operating expenses	(284)	(467)	(444)
Depreciation and amortization	(73)	(636)	(559)
Income from operations	<u>\$ 816</u>	<u>\$ 789</u>	<u>\$ 672</u>

Note 6. Debt

On September 1, 2015, the Company issued in a private placement \$50.0 million of senior unsecured notes with a seven-year term that bear interest at a fixed annual interest rate of 4.23% and mature in September 2022. On October 13, 2015, the Company issued in a private placement \$50.0 million of senior unsecured notes with a 12-year maturity that bear interest at a fixed annual interest rate of 4.65% and mature in October 2027 (collectively the “Senior Unsecured Notes”). As of December 31, 2015, the Company had a credit facility (the “Facility”), which consists of a \$100.0 million revolving credit facility that matures in May 2018, a \$50.0 million term loan that matures in May 2019, a \$50.0 million term loan that matures in May 2021 and a \$100.0 million term loan that matures in March 2020. As of both December 31, 2015 and 2014, there were no borrowings outstanding on the revolving credit facility and \$200.0 million of borrowings outstanding on the term loans. The Company has three interest rate caps to hedge the variable cash flows associated with \$150.0 million of its existing variable-rate term loans. See “Note 8 – Derivative Financial Instruments” for more information regarding the Company’s interest rate caps.

The aggregate amount of the Facility may be increased to a total of up to \$500.0 million, subject to the approval of the administrative agent and the identification of lenders willing to make available additional amounts. Outstanding borrowings under the Facility are limited to the lesser of (i) the sum of the \$200.0 million term loans and the \$100.0 million revolving credit facility, or (ii) 60.0% of the value of the unencumbered properties. Interest on the Facility, including the term loans, is generally to be paid based upon, at the Company’s option, either (i) LIBOR plus the applicable LIBOR margin or (ii) the applicable base rate which is the greatest of the administrative agent’s prime rate, 0.50% above the federal funds effective rate, or thirty-day LIBOR plus the applicable LIBOR margin for LIBOR rate loans under the Facility plus 1.25%. The applicable LIBOR margin will range from 1.50% to 2.05% (1.50% at December 31, 2015) for the revolving credit facility, the \$50.0 million term loan that matures in May 2019 and the \$100.0 million term loan that matures in March 2020 and 1.75% to 2.30% (1.75% at December 31, 2015) for the \$50.0 million term loan that matures in May 2021, depending on the ratio of the Company’s outstanding consolidated indebtedness to the value of the Company’s consolidated gross asset value. The Facility requires quarterly payments of an annual unused facility fee in an amount equal to 0.20% or 0.25% depending on the unused portion of the Facility.

The Facility and the Senior Unsecured Notes are guaranteed by the Company and by substantially all of the current and to-be-formed subsidiaries of the borrower that own an unencumbered property. The Facility and the Senior Unsecured Notes are unsecured by the Company’s properties or by interests in the subsidiaries that hold such properties. The Facility and the Senior Unsecured Notes include a series of financial and other covenants with which the Company must comply. The Company was in compliance with the covenants under the Facility and the Senior Unsecured Notes at December 31, 2015 and, as applicable, December 31, 2014.

The Company has mortgage loans payable which are collateralized by certain of the properties and require monthly interest and principal payments until maturity and are generally non-recourse. The mortgage loans mature between 2016 and 2021. As of December 31, 2015, the Company had seven mortgage loans payable

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totaling approximately \$83.5 million, which bear interest at a weighted average fixed annual rate of 4.4%. As of December 31, 2014, the Company had nine mortgage loans payable totaling approximately \$103.8 million, which bore interest at a weighted average fixed annual interest rate of 4.5%. As of December 31, 2015 and 2014, the total net book value of the properties securing the debt was approximately \$177.2 million and \$213.4 million, respectively.

The scheduled principal payments of the Company's debt as of December 31, 2015 were as follows (dollars in thousands):

	Credit Facility	Term Loans	Senior Unsecured Notes	Mortgage Loans Payable	Total Debt
2016	\$ —	\$ —	\$ —	\$16,871	\$ 16,871
2017	—	—	—	1,916	1,916
2018	—	—	—	1,910	1,910
2019	—	50,000	—	18,805	68,805
2020	—	100,000	—	33,077	133,077
Thereafter	—	50,000	100,000	11,271	161,271
Subtotal	—	200,000	100,000	83,850	383,850
Unamortized net premiums	—	—	—	199	199
Total Debt	—	200,000	100,000	84,049	384,049
Deferred financing costs, net	—	(1,057)	(977)	(540)	(2,574)
Total Debt, net	\$ —	\$ 198,943	\$ 99,023	\$83,509	\$381,475
Weighted Average Interest Rate	n/a	1.8%	4.4%	4.4%	3.1%

Note 7. Leasing

The following is a schedule of minimum future cash rentals on tenant operating leases in effect as of December 31, 2015. The schedule does not reflect future rental revenues from the renewal or replacement of existing leases and excludes property operating expense reimbursements (dollars in thousands):

2016	\$ 69,778
2017	61,729
2018	49,227
2019	37,084
2020	25,932
Thereafter	84,036
Total	\$ 327,786

Note 8. Derivative Financial Instruments

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of its known or expected cash payments principally related to its borrowings.

Derivative Instruments

The Company’s objectives in using interest rate derivatives are to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate caps as part of its interest rate risk management strategy. Interest rate caps involve the receipt of variable amounts from a counterparty at the end of each period in which the interest rate exceeds the agreed fixed price. The Company does not use derivatives for trading or speculative purposes. The Company requires that hedging derivative instruments be highly effective in reducing the risk exposure that they are designated to hedge. As a result, there is no significant ineffectiveness from any of its derivative activities.

The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. Derivatives that are not designated as hedges must be adjusted to fair value through earnings. For a derivative that is designated and that qualifies as a cash flow hedge, the effective portion of the change in fair value of the derivative is initially recorded in accumulated other comprehensive income (loss) (“AOCI”). Amounts recorded in AOCI are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of a derivative’s change in fair value is immediately recognized in earnings.

On July 27, 2015, the Company executed two interest rate cap transactions to hedge the variable cash flows associated with \$100.0 million of its existing variable-rate term loans that generally bear interest at LIBOR plus 1.50% to 2.05%, depending on leverage. The caps have a notional value of \$100.0 million, which is in effect beginning September 1, 2015. The Company is required to make certain monthly variable rate payments on the term loans, while the applicable counterparty is obligated to make certain monthly floating rate payments based on LIBOR to the Company in the event LIBOR is greater than 4.0%, referencing the same notional amount. The interest rate caps will effectively cap the annual interest rate payable on the \$100.0 million of indebtedness at 4.0% plus 1.50% to 2.05%, depending on leverage, with respect to \$50.0 million for the period from September 1, 2015 to April 1, 2019 and with respect to \$50.0 million for the period from September 1, 2015 to February 3, 2020.

On October 31, 2014, the Company executed a forward-starting interest rate cap transaction to hedge the variable cash flows associated with its existing \$50.0 million seven-year variable-rate term loan that generally bears interest at LIBOR plus 1.75% to 2.30%, depending on leverage. The cap has a notional value of \$50.0 million, which is in effect beginning in December 1, 2014. The Company is required to make certain monthly variable rate payments on the \$50.0 million seven-year term loan, while the applicable counterparty is obligated to make certain monthly floating rate payments based on LIBOR to the Company in the event LIBOR is greater than 4.0%, referencing the same notional amount. The interest rate cap will effectively cap the annual interest rate payable on the \$50.0 million seven-year term at 4.0% plus 1.75% to 2.30%, depending on leverage for the period from December 1, 2014 to May 1, 2021.

The Company records all derivative instruments on a gross basis in other assets on the accompanying consolidated balance sheets, and accordingly, there are no offsetting amounts that net assets against liabilities. The following table presents a summary of the Company’s derivative instruments designated as hedging instruments (dollars in thousands):

Derivative Instrument	Effective Date	Maturity Date	Interest Rate Strike	Fair Value		Notional Amount	
				December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Assets:							
Interest Rate Cap	12/1/2014	5/1/2021	4.0%	\$ 238	\$ 688	\$ 50,000	\$ 50,000
Interest Rate Cap	9/1/2015	4/1/2019	4.0%	42	—	50,000	—
Interest Rate Cap	9/1/2015	2/3/2020	4.0%	103	—	50,000	—
Total				<u>\$ 383</u>	<u>\$ 688</u>	<u>\$ 150,000</u>	<u>\$ 50,000</u>

Note 9. Fair Value Measurements

ASC 820 requires disclosure of the level within the fair value hierarchy in which the fair value measurements fall, including measurements using quoted prices in active markets for identical assets or liabilities (Level 1), quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active (Level 2), and significant valuation assumptions that are not readily observable in the market (Level 3).

Recurring Measurements – Interest Rate Contracts

Fair Value of Interest Rate Cap

Currently, the Company uses interest rate cap agreements to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. As of December 31, 2015 and 2014, the Company applied the provisions of this standard to the valuation of its interest rate caps.

The following sets forth the Company's financial instruments that are accounted for at fair value on a recurring basis as of December 31, 2015 and 2014 (dollars in thousands):

	Fair Value Measurement Using			
	Total Fair Value	Quoted Price in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Interest rate caps at:				
December 31, 2015	\$ 383	\$ —	\$ 383	\$ —
December 31, 2014	\$ 688	\$ —	\$ 688	\$ —

Financial Instruments Disclosed at Fair Value

As of December 31, 2015 and 2014, the fair values of cash and cash equivalents and accounts payable approximated their carrying values because of the short-term nature of these investments or liabilities based on Level 1 inputs.

The fair value of the Company's mortgage loans payable and Senior Unsecured Notes was estimated by calculating the present value of principal and interest payments, based on borrowing rates available to the Company, which are Level 2 inputs, adjusted with a credit spread, as applicable, and assuming the loans are outstanding through maturity. The fair value of the Company's Facility approximated its carrying value because the variable interest rates approximate market borrowing rates available to the Company, which are Level 2 inputs.

The following table sets forth the carrying value and the estimated fair value of the Company's debt as of December 31, 2015 and 2014 (dollars in thousands):

	Fair Value Measurement Using				Carrying Value
	Total Fair Value	Quoted Price in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Liabilities					
Debt at:					
December 31, 2015	\$ 382,885	\$ —	\$ 382,885	\$ —	\$ 381,475
December 31, 2014	\$ 304,346	\$ —	\$ 304,346	\$ —	\$ 302,470

Note 10. Stockholders' Equity

The Company's authorized capital stock consists of 400,000,000 shares of common stock, \$0.01 par value per share, and 100,000,000 shares of preferred stock, \$0.01 par value per share. The Company has an at-the-market equity offering program (the "ATM Program") pursuant to which the Company may issue and sell shares of its common stock having an aggregate offering price of up to \$100.0 million in amounts and at times to be determined by the Company from time to time. Actual sales, if any, will depend on a variety of factors to be determined by the Company from time to time, including, among others, market conditions, the trading price of the Company's common stock, determinations by the Company of the appropriate sources of funding for the Company and potential uses of funding available to the Company. The Company intends to use the net proceeds from the offering of the shares under the ATM Program, if any, for general corporate purposes, which may include future acquisitions and repayment of indebtedness, including borrowings under the Facility. During the year ended December 31, 2015, the Company issued an aggregate of 136,600 shares of common stock at a weighted average offering price of \$22.85 per share under the ATM Program, receiving net proceeds of approximately \$3.1 million and paying total compensation to the applicable sales agents of approximately \$47,000. The Company issued no shares of common stock under the ATM Program during the year ended December 31, 2014. As of December 31, 2015, the Company had shares of common stock having an aggregate offering price of up to \$96.9 million available for issuance under the ATM Program.

On August 4, 2015, the Company's Board of Directors approved a share repurchase program authorizing the Company to repurchase up to 2,000,000 shares of its outstanding common stock from time to time through December 31, 2016. Purchases made pursuant to the program will be made in either the open market or in privately negotiated transactions as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The program may be suspended or discontinued at any time. As of December 31, 2015 the Company has not repurchased any shares of stock pursuant to its share repurchase authorization.

In connection with the annual meeting of stockholders on May 5, 2015, the Company granted a total of 16,444 shares of unrestricted common stock to its independent directors under the Company's Amended and Restated 2010 Equity Incentive Plan with a grant date fair value per share of \$20.68. The grant date fair value of the unrestricted common stock was determined using the closing price of the Company's common stock on the date of the grant. The Company recognized approximately \$0.3 million in compensation costs for the year ended December 31, 2015 related to this issuance.

As of both December 31, 2015 and 2014, 1,840,000 shares of 7.75% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock") were issued and outstanding. Dividends on the Series A Preferred Stock are payable when, as and if authorized by the Company's board of directors quarterly in arrears on or about the last day of March, June, September and December of each year. The Series A Preferred Stock ranks, with respect to dividend rights and rights upon the Company's liquidation, dissolution or winding-up, senior to the Company's common stock.

Generally, the Company may not redeem the Series A Preferred Stock prior to July 19, 2017, except in limited circumstances relating to the Company's ability to qualify as a REIT, and pursuant to a special optional redemption related to a specified change of control (as defined in the articles supplementary for the Series A Preferred Stock). On and after July 19, 2017, the Company may, at its option, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends (whether or not authorized or declared) up to but excluding the redemption date.

As of December 31, 2015, there were 1,705,000 shares of common stock authorized for issuance as restricted stock grants, unrestricted stock awards or Performance Share awards under the Company's Amended and Restated 2010 Equity Incentive Plan, of which 980,309 were remaining. The grant date fair value per share of

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restricted stock awards issued during the period from February 16, 2010 (commencement of operations) to December 31, 2015 ranged from \$14.20 to \$23.39. The grant date fair value of the restricted stock was determined using the initial public offering price of \$20.00 for grants issued on February 16, 2010 (commencement of operations) and for all grants issued after the commencement of operations, the Company uses the closing price of the Company's common stock on the date of grant. The fair value of the restricted stock that was granted during the year ended December 31, 2015 was \$6.6 million and the vesting period for the restricted stock is five years. As of December 31, 2015, the Company had approximately \$7.1 million of total unrecognized compensation costs related to restricted stock issuances, which is expected to be recognized over a remaining weighted average period of approximately 4.0 years. The Company recognized compensation costs of approximately \$1.3 million, \$1.1 million and \$0.9 million, respectively, for the years ended December 31, 2015, 2014 and 2013 related to the restricted stock issuances.

The following is a summary of the total restricted shares granted to the Company's executive officers and employees with the related weighted average grant date fair value share prices for the years ended December 31, 2015, 2014 and 2013.

Restricted Stock Activity:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested shares outstanding as of December 31, 2012	149,125	\$ 17.78
Granted	48,891	17.08
Forfeited	(9,122)	18.29
Vested	(32,326)	18.29
Non-vested shares outstanding as of December 31, 2013	156,568	17.43
Granted	51,146	18.38
Forfeited	(12,943)	18.33
Vested	(38,283)	18.33
Non-vested shares outstanding as of December 31, 2014	156,488	17.45
Granted	308,087	20.97
Forfeited	(20,322)	17.33
Vested	(40,785)	18.13
Non-vested shares outstanding as of December 31, 2015	<u>403,468</u>	<u>\$ 20.08</u>

The following is a vesting schedule of the total non-vested shares of restricted stock outstanding as of December 31, 2015:

<u>Non-vested Shares Vesting Schedule</u>	<u>Number of Shares</u>
2016	39,152
2017	33,484
2018	24,217
2019	14,673
2020	291,942
Total Non-vested Shares	<u>403,468</u>

Long-Term Incentive Plan:

As of December 31, 2015, there are three open performance measurement periods for the Performance Share awards: January 1, 2013 to December 31, 2015, January 1, 2014 to December 31, 2016 and January 1, 2015 to December 31, 2017. The Performance Share awards related to the performance measurement periods from February 16, 2010 to December 31, 2014 resulted in no compensation expense as the Compensation Committee of the Board of Directors determined that the Company's total shareholder return did not exceed the applicable metrics during the performance measurement periods. The Company recorded compensation costs of approximately \$4.5 million, \$0.7 million and \$0.9 million, respectively, for the years ended December 31, 2015, 2014 and 2013, related to the Performance Share awards. As of December 31, 2015 and 2014, approximately \$6.4 million and \$1.9 million, respectively, of accrued compensation costs related to the Performance Share awards were included as a component of accounts payable and other liabilities in the accompanying consolidated balance sheets.

Dividends:

The following table sets forth the cash dividends paid or payable per share during the years ended December 31, 2015 and 2014:

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2015	Common stock	\$0.160000	February 18, 2015	April 7, 2015	April 21, 2015
March 31, 2015	Preferred stock	\$0.484375	February 18, 2015	March 10, 2015	March 31, 2015
June 30, 2015	Common stock	\$0.160000	May 5, 2015	July 7, 2015	July 21, 2015
June 30, 2015	Preferred stock	\$0.484375	May 5, 2015	June 11, 2015	June 30, 2015
September 30, 2015	Common stock	\$0.160000	August 4, 2015	October 7, 2015	October 21, 2015
September 30, 2015	Preferred stock	\$0.484375	August 4, 2015	September 10, 2015	September 30, 2015
December 31, 2015	Common stock	\$0.180000	November 3, 2015	December 31, 2015	January 14, 2016
December 31, 2015	Preferred stock	\$0.484375	November 3, 2015	December 10, 2015	December 31, 2015

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2014	Common stock	\$0.130000	February 19, 2014	April 7, 2014	April 21, 2014
March 31, 2014	Preferred stock	\$0.484375	February 19, 2014	March 10, 2014	March 31, 2014
June 30, 2014	Common stock	\$0.140000	May 9, 2014	July 7, 2014	July 21, 2014
June 30, 2014	Preferred stock	\$0.484375	May 9, 2014	June 11, 2014	June 30, 2014
September 30, 2014	Common stock	\$0.140000	August 8, 2014	October 7, 2014	October 21, 2014
September 30, 2014	Preferred stock	\$0.484375	August 8, 2014	September 12, 2014	September 30, 2014
December 31, 2014	Common stock	\$0.160000	November 4, 2014	December 31, 2014	January 14, 2015
December 31, 2014	Preferred stock	\$0.484375	November 4, 2014	December 12, 2014	December 31, 2014

Note 11. Net Income (Loss) Per Share

Pursuant to ASC 260-10-45, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The two-class method of computing earnings per share allocates earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. The Company's non-vested shares of restricted stock are considered participating securities since these share-based awards contain non-forfeitable rights to dividends irrespective of whether the awards ultimately vest or expire. The Company had no dilutive restricted stock awards outstanding for the years ended December 31, 2015, 2014 and 2013.

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In accordance with the Company's policies of determining whether instruments granted in share-based payment transactions are participating securities and accounting for earnings per share, the net income (loss) per common share is adjusted for earnings distributed through declared dividends (if any) and allocated to all participating securities (weighted average common shares outstanding and unvested restricted shares outstanding) under the two-class method. Under this method, allocations were made to 242,402, 157,386 and 156,203 of weighted average unvested restricted shares outstanding for the years ended December 31, 2015, 2014 and 2013, respectively.

Note 12. Quarterly Results of Operations – Unaudited

The following tables summarize the Company's quarterly financial information.

	2015 Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except per share data)			
Total revenues	\$ 23,131	\$ 24,237	\$ 24,327	\$ 24,200
Total costs and expenses	(21,809)	(17,729)	(17,905)	(24,797)
Total other income and expenses	(2,167)	4,164	(2,208)	1,157
Net (loss) income	(845)	10,672	4,214	560
Net (loss) income available to common stockholders, net of preferred stock dividends	<u>\$ (1,736)</u>	<u>\$ 9,753</u>	<u>\$ 3,284</u>	<u>\$ (343)</u>
Earnings per Common Share – Basic and Diluted:				
Net (loss) income available to common stockholders, net of preferred stock dividends ¹	<u>\$ (0.04)</u>	<u>\$ 0.23</u>	<u>\$ 0.08</u>	<u>\$ (0.01)</u>
Basic and Diluted Weighted Average Common Shares Outstanding	<u>42,731,802</u>	<u>42,898,126</u>	<u>42,906,222</u>	<u>42,906,538</u>
	2014 Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except per share data)			
Total revenues	\$ 15,804	\$ 16,610	\$ 17,714	\$ 18,747
Total costs and expenses	(12,426)	(12,230)	(12,806)	(14,105)
Total other income and expenses	(1,593)	(1,659)	(1,470)	(1,868)
Net income	1,785	2,721	3,438	2,774
Net income available to common stockholders, net of preferred stock dividends	<u>\$ 888</u>	<u>\$ 1,823</u>	<u>\$ 2,535</u>	<u>\$ 1,880</u>
Earnings per Common Share – Basic and Diluted:				
Net income available to common stockholders, net of preferred stock dividends ¹	<u>\$ 0.04</u>	<u>\$ 0.06</u>	<u>\$ 0.08</u>	<u>\$ 0.05</u>
Basic and Diluted Weighted Average Common Shares Outstanding	<u>24,850,760</u>	<u>28,419,154</u>	<u>32,937,432</u>	<u>35,381,477</u>

¹ The above quarterly income (loss) per share calculations are based on the weighted average number of common shares outstanding during each quarter. The income (loss) per share calculation for the years ended December 31, 2015 and 2014 in the consolidated statements of operations is based on the weighted average number of common shares outstanding for the years ended December 31, 2015 and 2014. The sum of the quarterly financial data may vary from the years ended December 31, 2015 and 2014 data due to rounding.

Note 13. Commitments and Contingencies

Litigation . The Company is not involved in any material litigation nor, to its knowledge, is any material litigation threatened against it. In the normal course of business, from time to time, the Company may be involved in legal actions relating to the ownership and operations of its properties. Management does not expect that the liabilities, if any, that may ultimately result from such legal actions will have a material effect on the consolidated financial position, results of operations or cash flows of the Company.

Environmental Matters. The industrial properties that the Company owns and will acquire are subject to various federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require the Company, as owner of a contaminated property, to clean up the property, even if it did not know of or was not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated, and therefore it is possible the Company could incur these costs even after the Company sells some of the properties it acquires. In addition to the costs of cleanup, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow using the property as collateral or to sell the property. Under applicable environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or an incinerator, pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment.

Furthermore, various court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos at one of the Company's properties may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental laws restrict the use of a property or place conditions on various activities. An example would be laws that require a business using chemicals to manage them carefully and to notify local officials that the chemicals are being used.

The Company could be responsible for any of the costs discussed above. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could adversely affect the funds available for distribution to its stockholders. The Company generally obtains "Phase I environmental site assessments", or ESAs, on each property prior to acquiring it. However, these ESAs may not reveal all environmental costs that might have a material adverse effect on the Company's business, assets, results of operations or liquidity and may not identify all potential environmental liabilities.

The Company utilizes local third party property managers for day-to-day property management and will rely on these third parties to operate its industrial properties in compliance with applicable federal, state and local environmental laws in their daily operation of the respective properties and to promptly notify the Company of any environmental contaminations or similar issues.

As a result, the Company may become subject to material environmental liabilities of which it is unaware. The Company can make no assurances that (1) future laws or regulations will not impose material environmental liabilities on it, or (2) the environmental condition of the Company's industrial properties will not be affected by the condition of the properties in the vicinity of its industrial properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to the Company. The Company was not aware of any significant or material exposures as of December 31, 2015 or 2014.

General Uninsured Losses. The Company carries property and rental loss, liability and terrorism insurance. The Company believes that the policy terms, conditions, limits and deductibles are adequate and appropriate under the circumstances, given the relative risk of loss, the cost of such coverage and current industry practice. In addition, the Company's properties are located, or may in the future be located, in areas that are subject to earthquake and flood activity. As a result, the Company has obtained, as applicable, limited earthquake and flood insurance on those properties. There are, however, certain types of extraordinary losses, such as those due to acts of war that may

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be either uninsurable or not economically insurable. Although the Company has obtained coverage for certain acts of terrorism, with policy specifications and insured limits that it believes are commercially reasonable, there can be no assurance that the Company will be able to collect under such policies. Should an uninsured loss occur, the Company could lose its investment in, and anticipated profits and cash flows from, a property. The Company was not aware of any significant or material exposures as of December 31, 2015 and 2014.

Contractual Commitments. As of February 10, 2016, the Company had four outstanding contracts with third-party sellers to acquire four industrial properties consisting of 216,491 square feet (unaudited). There is no assurance that the Company will acquire the properties under contract because the proposed acquisitions are subject to the completion of satisfactory due diligence and various closing conditions. The following table summarizes certain information with respect to the properties the Company has under contract ¹:

<u>Market</u>	<u>Number of Buildings</u>	<u>Square Feet (Unaudited)</u>	<u>Purchase Price (in thousands)</u>	<u>Assumed Debt (in thousands)</u>
Los Angeles	—	—	\$ —	\$ —
Northern New Jersey/New York City ¹	1	126,491	22,416	—
San Francisco Bay Area	1	30,000	5,250	—
Seattle	—	—	—	—
Miami	1	60,000	6,000	—
Washington, D.C./Baltimore	—	—	—	—
Total	<u>3</u>	<u>216,491</u>	<u>\$ 33,666</u>	<u>\$ —</u>

¹ Includes one improved land parcel consisting of 4.5 acres (unaudited).

As of February 10, 2016, the Company has executed one non-binding letter of intent with a third-party seller to acquire one industrial property consisting of 53,558 square feet (unaudited). The total purchase price for the industrial property is approximately \$6.4 million. In the normal course of its business, the Company enters into non-binding letters of intent to purchase properties from third parties that may obligate the Company to make payments or perform other obligations upon the occurrence of certain events, including the execution of a purchase and sale agreement and satisfactory completion of various due diligence matters. There can be no assurance that the Company will enter into a purchase and sale agreement with respect to this property or otherwise complete any such prospective purchase on the terms described or at all.

As of February 10, 2016, the Company had two outstanding contracts with third-party purchasers to sell one property, consisting of 71,516 square feet (unaudited), located in the San Francisco Bay Area market for a sales price of approximately \$8.2 million and one property, consisting of 68,989 square feet (unaudited), located in the Washington, D.C./Baltimore market for a sales price of approximately \$8.2 million. There can be no assurance that the Company will sell the properties under contract because the proposed dispositions are subject to the completion of satisfactory due diligence and various closing conditions.

Note 14. Subsequent Events

On January 25, 2016, the Company acquired one industrial building located in Seattle, WA containing 35,480 square feet (unaudited) for a total purchase price of approximately \$6.5 million. The property was acquired from an unrelated third party using existing cash on hand.

On February 9, 2016, the Company's board of directors declared a cash dividend in the amount of \$0.18 per share of its common stock payable on April 12, 2016 to the stockholders of record as of the close of business on March 28, 2016.

On February 9, 2016, the Company's board of directors declared a cash dividend in the amount of \$0.484375 per share of its Series A Preferred Stock payable on March 31, 2016 to the preferred stockholders of record as of the close of business on March 10, 2016.

Terreno Realty Corporation

Schedule III
Real Estate Investments and Accumulated Depreciation
As of December 31, 2015
(in thousands)

Property Name	No. of Bldgs.	Location	Encumbrances	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount Carried at 12/31/15			Accumulated Depreciation	Year Acquired	Year Constructed
				Land	Buildings & Improvements		Land	Buildings & Improvements	Total			
Los Angeles												
630 Glasgow	1	Inglewood, CA	\$ 2,271	\$ 2,245	\$ 1,855	\$ 385	\$ 2,245	\$ 2,240	\$ 4,485	\$ 346	2011	1988
747 Glasgow	1	Inglewood, CA	—	1,759	1,555	127	1,759	1,682	3,441	99	2014	1981
14605 Miller Ave	1	Fontana, CA	—	8,695	12,945	8	8,695	12,953	21,648	357	2014	1990
14611 Broadway	1	Gardena, CA	—	4,757	1,243	974	4,757	2,217	6,974	258	2013	1962
19601 Hamilton	1	Torrance, CA	—	7,409	4,072	29	7,409	4,101	11,510	454	2011	1985
California	1	Corona, CA	—	3,225	4,416	4	3,225	4,420	7,645	186	2014	1994
Garfield	5	Commerce, CA	24,015	27,539	22,694	2,342	27,539	25,036	52,575	2,847	2012	2002
Las Hermanas	1	Compton, CA	—	3,330	751	185	3,330	936	4,266	58	2014	1970
Manhattan Beach	1	Redondo Beach, CA	—	7,874	5,641	35	7,874	5,676	13,550	549	2012	1963/1970
Whittier	1	Whittier, CA	—	7,736	7,902	412	7,736	8,314	16,050	890	2012	2004
Northern New Jersey/												
New York City												
1 Dodge Drive	1	West Caldwell, NJ	—	3,819	2,982	1,241	3,819	4,223	8,042	346	2013	1985
17 Madison	1	Fairfield, NJ	—	974	1,647	469	974	2,116	3,090	149	2013	1979
20 Pulaski	1	Bayonne, NJ	—	4,003	4,946	179	4,003	5,125	9,128	288	2014	1965
22 Madison	1	Fairfield, NJ	—	1,365	1,607	—	1,365	1,607	2,972	6	2015	1979
341 Michele	1	Carlstadt, NJ	—	2,372	4,798	172	2,372	4,970	7,342	285	2013	1973
465 Meadow	1	Carlstadt, NJ	—	713	1,618	26	713	1,644	2,357	92	2013	1972
550 Delancy	1	Newark, NJ	—	9,230	4,855	10	9,230	4,865	14,095	361	2013	1987
620 Division	1	Elizabeth, NJ	6,199	6,491	3,568	3,005	6,491	6,573	13,064	1,046	2011	1980
900 Hart	1	Piscataway, NJ	—	3,202	3,866	839	3,202	4,705	7,907	194	2014	1983
Belleville	1	Kearny, NJ	13,323	12,845	18,041	1,288	12,845	19,329	32,174	2,100	2011	2006
Dell	1	Carlstadt, NJ	—	6,641	771	122	6,641	893	7,534	91	2011	1972
Ethel	2	Piscataway, NJ	—	2,748	3,801	993	2,748	4,794	7,542	354	2013	1981/1984
Interstate	2	South Brunswick, NJ	—	13,686	12,135	9,322	13,686	21,457	35,143	2,150	2010/2013	1999/2014
JFK Airgate	4	Queens, NY	—	18,282	32,933	582	18,282	33,515	51,797	2,013	2013	1986/1991
Manor	1	East Rutherford, NJ	—	4,076	5,262	62	4,076	5,324	9,400	28	2015	1968
Melanie Lane	3	East Hanover, NJ	—	5,931	13,178	861	5,931	14,039	19,970	960	2013	1980/1998
Middlebrook	18	Bound Brook, NJ	—	16,442	10,241	9,315	16,442	19,556	35,998	3,566	2010	1958/1976
Terminal Way	2	Avenel, NJ	—	3,537	3,598	—	3,537	3,598	7,135	105	2014	1950/1968

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Property Name	No. of Bldgs.	Location	Encumbrances	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount Carried at 12/31/15			Accumulated Depreciation	Year Acquired	Year Constructed
				Land	Buildings & Improvements		Land	Buildings & Improvements	Total			
San Francisco Bay Area												
238/242 Lawrence	2	South San Francisco, CA	398	6,674	2,655	890	6,674	3,545	10,219	683	2010	1986
240 Littlefield	1	South San Francisco, CA	—	5,107	3,293	2,852	5,107	6,145	11,252	285	2013	2013
299 Lawrence	1	South San Francisco, CA	—	1,352	1,198	416	1,352	1,614	2,966	334	2010	1968
631 Brennan	1	San Jose, CA	—	1,932	2,245	447	1,932	2,692	4,624	299	2012	1975
Ahern	2	Union City, CA	3,276	3,246	2,749	438	3,246	3,187	6,433	580	2010	1986
Ahern II	1	Union City, CA	—	2,467	4,527	—	2,467	4,527	6,994	96	2015	1997
Burroughs	3	San Leandro, CA	—	5,400	7,092	107	5,400	7,199	12,599	335	2014	1966
Caribbean	3	Sunnyvale, CA	—	17,483	14,493	1,721	17,483	16,214	33,697	1,561	2012	1980/1981
Carlton Court	1	South San Francisco, CA	—	2,036	1,475	162	2,036	1,637	3,673	171	2012	1981
Clawiter	1	Hayward, CA	4,553	5,964	1,159	23	5,964	1,182	7,146	118	2011	1967
Fortune/Qume	1	San Jose, CA	—	2,518	2,484	707	2,518	3,191	5,709	731	2010	1980
Central Pacific												
Business Park I	3	Union City, CA	—	8,468	14,165	278	8,468	14,443	22,911	413	2014	1989
Central Pacific												
Business Park II	4	Union City, CA	—	13,642	23,658	803	13,642	24,461	38,103	24	2015	2015
Seattle												
79 Ave South	1	Kent, WA	—	1,267	1,503	360	1,267	1,863	3,130	89	2014	2000
3401 Lind	1	Renton, WA	5,482	2,999	6,707	26	2,999	6,733	9,732	212	2014	1984/2012
4225 2nd Avenue	1	Seattle, WA	—	4,236	4,049	—	4,236	4,049	8,285	21	2015	1957
17600 West Valley												
Highway	1	Tukwila, WA	4,573	3,361	5,260	655	3,361	5,915	9,276	651	2012	1986
Auburn 1307	1	Auburn, WA	—	4,253	5,034	82	4,253	5,116	9,369	200	2014	2002
Kent 188	1	Kent, WA	4,989	3,251	4,719	1,224	3,251	5,943	9,194	924	2010	1979
Kent 190	1	Kent, WA	—	4,560	5,561	3	4,560	5,564	10,124	104	2015	1992/1999
Kent 202	1	Kent, WA	—	5,761	9,114	—	5,761	9,114	14,875	10	2015	1981
Kent 216	1	Kent, WA	—	3,672	5,408	299	3,672	5,707	9,379	258	2014	1996
Kent Corporate Park	4	Kent, WA	4,739	5,032	6,916	487	5,032	7,403	12,435	97	2015	1980/1981
Olympic	1	Tukwila, WA	—	1,499	1,431	—	1,499	1,431	2,930	27	2015	1978
SeaTac 8th Avenue	1	Burien, WA	—	2,501	4,020	361	2,501	4,381	6,882	393	2013	1988
SW 34th	1	Renton, WA	—	2,912	3,289	—	2,912	3,289	6,201	174	2014	1996/2010
Valley Corporate	2	Kent, WA	8,152	5,264	9,096	525	5,264	9,621	14,885	1,080	2011	1987
Miami												
10th Avenue	1	Hialeah, FL	—	6,376	2,624	2,653	6,376	5,277	11,653	1,012	2010	1957/2005
25th Street	1	Doral, FL	—	4,454	4,889	—	4,454	4,889	9,343	128	2015	1974
26th Street	2	Miami, FL	—	4,569	6,183	46	4,569	6,229	10,798	539	2012	1973
39th Street	1	Doral, FL	1,880	1,420	2,717	13	1,420	2,730	4,150	300	2011	2002
48th Avenue	2	Miami Gardens, FL	—	4,322	2,187	382	4,322	2,569	6,891	240	2011	1987
60th Avenue	1	Miami Lakes, FL	—	6,203	1,567	6,364	6,203	7,931	14,134	1,510	2010	1971/2011
70th Avenue	1	Miami, FL	—	1,434	2,333	136	1,434	2,469	3,903	290	2011	1999

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Property Name	No. of Bldgs.	Location	Encumbrances	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount Carried at 12/31/15			Accumulated Depreciation	Year Acquired	Year Constructed
				Land	Buildings & Improvements		Land	Buildings & Improvements	Total			
78th Avenue	1	Doral, FL	—	2,445	1,755	1,900	2,445	3,655	6,100	442	2012	1977
81st Street	2	Medley, FL	—	2,938	5,242	571	2,938	5,813	8,751	137	2015	1996/2003
107th Avenue	1	Medley, FL	—	2,787	2,036	461	2,787	2,497	5,284	177	2013	2001
101st Road	1	Medley, FL	—	2,647	3,258	565	2,647	3,823	6,470	505	2013	2012
131st Street	1	Medley, FL	—	2,903	5,729	278	2,903	6,007	8,910	183	2014	1999
Americas Gateway	6	Doral, FL	—	11,152	11,721	1,465	11,152	13,186	24,338	1,083	2013	1978/1982
Miami International Trade Center	4	Medley, FL	—	5,063	10,958	231	5,063	11,189	16,252	82	2015	1996
Washington, D.C./Baltimore												
75th Ave	5	Landover, MD	—	10,658	18,615	1,988	10,658	20,603	31,261	577	2014	1987/1990
3601 Pennsy	1	Landover, MD	—	2,331	4,375	60	2,331	4,435	6,766	271	2013	1996
4230 Forbes	1	Lanham, MD	—	1,736	2,395	111	1,736	2,506	4,242	180	2013	2003
8215 Dorsey	1	Jessup, MD	—	2,263	3,200	—	2,263	3,200	5,463	193	2013	1965/1981
8730 Bollman	1	Savage, MD	—	4,361	2,757	528	4,361	3,285	7,646	414	2011	1984
9070 Junction	1	Annapolis Junction, MD	—	3,538	6,670	1,065	3,538	7,735	11,273	191	2015	1997
Dorsey	1	Jessup, MD	—	3,207	2,383	1,322	3,207	3,705	6,912	598	2011	1977
Global Plaza	1	Sterling, VA	—	1,948	3,619	7	1,948	3,626	5,574	377	2012	2006
Hampton	1	Capitol Heights, MD	—	5,095	11,672	—	5,095	11,672	16,767	525	2014	2006
Junction	1	Annapolis Junction, MD	—	2,526	10,419	14	2,526	10,433	12,959	313	2014	1989/2012
Parkway	1	Hanover, MD	—	4,543	12,094	12	4,543	12,106	16,649	601	2014	1968/2012
Route 100	2	Elkridge, MD	—	6,492	9,403	1,120	6,492	10,523	17,015	827	2013	1973/1974
Troy Hill	1	Elkridge, MD	—	1,409	5,033	40	1,409	5,073	6,482	465	2012	2003
V Street	6	Washington, D.C.	—	67,132	41,299	1,067	67,132	42,366	109,498	1,100	2015	1955/1963
Subtotal	148		83,850	493,735	543,354	68,252	493,735	611,606	1,105,341	43,308		
Unamortized net premiums	—		199	—	—	—	—	—	—	—		
Unamortized net deferred financing costs	—		(540)	—	—	—	—	—	—	—		
Intangible assets	—		—	—	—	—	—	—	55,917	31,595		
Total	148		\$ 83,509	\$493,735	\$ 543,354	\$ 68,252	\$493,735	\$ 611,606	\$1,161,258	\$ 74,903		

Terreno Realty Corporation
Schedule III
Real Estate Investments and Accumulated Depreciation – (Continued)
As of December 31, 2015
(in thousands)

A summary of activity for real estate and accumulated depreciation for the years ended December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Investment in Properties		
Balance at beginning of year	\$ 901,273	\$ 651,839
Acquisition of properties	271,523	236,747
Disposition of properties	(8,387)	—
Construction in progress	1,503	—
Properties held for sale	(6,257)	(6,962)
Improvements, net of write-offs	20,265	19,649
Balance at end of year	<u>\$ 1,179,920</u>	<u>\$ 901,273</u>
	<u>2015</u>	<u>2014</u>
Accumulated Depreciation		
Balance at beginning of year	\$ 45,446	\$ 27,103
Amortization of lease intangible assets	11,845	6,942
Depreciation expense	22,776	12,127
Accumulated depreciation on properties held for sale	(1,278)	(647)
Disposition of properties and write-offs	(1,148)	(79)
Balance at end of year	<u>\$ 77,641</u>	<u>\$ 45,446</u>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Francisco, State of California, on February 10, 2016.

Terreno Realty Corporation

By: /s/ W. Blake Baird
W. Blake Baird
Chairman and Chief Executive Officer

Power of Attorney

We, the undersigned directors of Terreno Realty Corporation hereby severally constitute and appoint W. Blake Baird and Michael A. Coke, and each of them singly, our true and lawful attorneys, with full power to them and each of them singly, to sign for us in our names in the capacities indicated below, all amendments to this report, and generally to do all things in our names and on our behalf in such capacities to enable Terreno Realty Corporation to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ W. Blake Baird</u> W. Blake Baird	Chairman, Chief Executive Officer and Director (principal executive officer)	February 10, 2016
<u>/s/ Michael A. Coke</u> Michael A. Coke	President and Director	February 10, 2016
<u>/s/ Jaime J. Cannon</u> Jaime J. Cannon	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	February 10, 2016
<u>/s/ LeRoy E. Carlson</u> LeRoy E. Carlson	Director	February 10, 2016
<u>/s/ Peter J. Merlone</u> Peter J. Merlone	Director	February 10, 2016
<u>/s/ Douglas M. Pasquale</u> Douglas M. Pasquale	Director	February 10, 2016
<u>/s/ Dennis Polk</u> Dennis Polk	Director	February 10, 2016

Exhibit Index

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Articles of Amendment and Restatement of Registrant, as amended (previously filed as Exhibit 3.1 to Amendment No. 2 to the Registrant's Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
3.2	Articles Supplementary for Registrant's 7.75% Series A Cumulative Redeemable Preferred Stock (as previously filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K on July 19, 2012 and incorporated herein by reference).
3.3	Amended and Restated Bylaws of Registrant (previously filed as Exhibit 3.2 to Amendment No. 2 to the Registrant's Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
4.1	Specimen Common Stock Certificate of Registrant (previously filed as Exhibit 4.1 to Amendment No. 3 to the Registrant's Registration Statement on Form S-11 on January 15, 2010 and incorporated herein by reference).
4.2	Specimen Certificate for the Company's 7.75% Series A Cumulative Redeemable Preferred Stock (previously filed as Exhibit 4.1 to the Company's Form 8-A on July 13, 2012 and incorporated herein by reference).
10.1+	Amended and Restated Severance Agreement between Registrant and W. Blake Baird, dated as of February 18, 2014 (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K on February 19, 2014 and incorporated herein by reference).
10.2+	Amended and Restated Severance Agreement between Registrant and Michael A. Coke dated as of February 18, 2014 (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K on February 19, 2014 and incorporated herein by reference).
10.3+	Severance Agreement between Registrant and Jaime J. Cannon dated as of February 18, 2014 (previously filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K on February 19, 2014 and incorporated herein by reference).
10.4+	Amended and Restated 2010 Equity Incentive Plan of Registrant (previously filed as Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A on March 19, 2014 and incorporated herein by reference).
10.5+	Form of Restricted Stock Award Agreement for Executive Officers and Employees (previously filed as Exhibit 10.4 to Amendment No. 2 to the Registrant's Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
10.6+	Form of Restricted Stock Award Agreement for Non-Employee Directors (previously filed as Exhibit 10.5 to Amendment No. 2 to the Registrant's Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
10.7+	Form of Indemnification Agreement between Registrant and its Directors and Executive Officers (previously filed as Exhibit 10.6 to Amendment No. 2 to the Registrant's Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
10.8+	Amended and Restated Long-Term Incentive Plan of Registrant (previously filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K on February 19, 2014 and incorporated by reference herein).
10.9+	Form of Award Notice under the Long-Term Incentive Plan of Registrant (previously filed as Exhibit 10.8 to Amendment No. 2 to the Registrant's Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).

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- 10.10 Third Amended and Restated Senior Credit Agreement, dated as of May 8, 2014, among Terreno Realty LLC, KeyBank National Association, both individually as a “Lender” and as “Administrative Agent”, KeyBanc Capital Markets as “Lead Arranger,” and the several banks, financial institutions and other entities which may from time to time become parties as additional “Lenders” (previously filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K on May 14, 2014 and incorporated herein by reference).
- 10.11 First Amendment to the Third Amended and Restated Senior Credit Agreement, dated as of December 8, 2014, among Terreno Realty LLC, KeyBank National Association, both individually as a “Lender” and as “Administrative Agent”, KeyBanc Capital Markets as “Lead Arranger,” and the several banks, financial institutions and other entities which may from time to time become parties as additional “Lenders” (previously filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K on December 12, 2014 and incorporated herein by reference).
- 10.12 Sale Contract, dated as of December 6, 2014, by and between SMC-United Industrial Limited Partnership and Terreno Realty LLC (previously filed as Exhibit 2.1 to the Registrant’s Current Report on Form 8-K on February 4, 2015 and incorporated herein by reference).
- 10.13 First Amendment to Sale Contract, dated as of January 8, 2015, by and between SMC-United Industrial Limited Partnership and Terreno Realty LLC (previously filed as Exhibit 2.2 to the Registrant’s Current Report on Form 8-K on February 4, 2015 and incorporated herein by reference).
- 10.14 Second Amendment to Sale Contract, dated as of January 16, 2015, by and between SMC-United Industrial Limited Partnership and Terreno Realty LLC (previously filed as Exhibit 2.3 to the Registrant’s Current Report on Form 8-K on February 4, 2015 and incorporated herein by reference).
- 10.15 Note Purchase Agreement, dated as of September 1, 2015, among Terreno Realty LLC and the institutions named in Schedule B thereto as purchasers (previously filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K on September 8, 2015 and incorporated herein by reference).
- 10.16*+ Severance Agreement between the Company and Andrew T. Burke, dated as of February 18, 2014.
- 10.17*+ Severance Agreement between the Company and John T. Meyer, dated as of February 18, 2014.
- 12.1* Statement of Computation of Ratios.
- 21* Subsidiaries of Registrant.
- 23* Consent of Independent Registered Public Accounting Firm.
- 24.1* Power of Attorney (included on the signature page to this Annual Report on Form 10-K).
- 31.1* Certification of Chief Executive Officer, pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of Chief Financial Officer, pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3* Certification of President, pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1** Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2** Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.3** Certification of President, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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101 The following materials from Terreno Realty Corporation's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows, (vi) Notes to Consolidated Financial Statements and (vii) Schedule III-Real Estate Investments and Accumulated Depreciation.

* Filed herewith.

** Furnished herewith.

+ Exhibit is a management contract or compensatory plan or arrangement.

SEVERANCE AGREEMENT

This Severance Agreement (“Agreement”) is made as of February 18, 2014, between Terreno Realty Corporation, a Maryland corporation (the “Company”), and Andrew T. Burke (the “Executive”).

WHEREAS, the Company desires to continue to employ the Executive and to provide the Executive with certain severance protection and the Executive desires to continue to be employed by the Company on the terms contained herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Term. The term of this Agreement shall extend from the date first written above (the “Commencement Date”) until the third anniversary of the Commencement Date. The Agreement shall be automatically extended for an additional one-year period beginning on the third anniversary of the Commencement Date and each anniversary thereof unless, not less than 90 days prior to each such date, either party shall have given notice to the other that it does not wish to extend this Agreement.

2. Termination. During the term of this Agreement, the Executive’s employment with the Company may be terminated without any breach of this Agreement under the following circumstances:

(a) Death. The Executive’s employment hereunder shall terminate upon his death.

(b) Disability. The Company may terminate the Executive’s employment if he is disabled and unable to perform the essential functions of the Executive’s then existing position or positions under this Agreement with or without reasonable accommodation for a period of 180 days (which need not be consecutive) in any 12-month period. If any question shall arise as to whether during any period the Executive is disabled so as to be unable to perform the essential functions of the Executive’s then existing position or positions with or without reasonable accommodation, the Executive may, and at the request of the Company shall, submit to the Company a certification in reasonable detail by a physician selected by the Company to whom the Executive or the Executive’s guardian has no reasonable objection as to whether the Executive is so disabled or how long such disability is expected to continue, and such certification shall for the purposes of this Agreement be conclusive of the issue. The Executive shall cooperate with any reasonable request of the physician in connection with such certification. If such question shall arise and the Executive shall fail to submit such certification, the Company’s determination of such issue shall be binding on the Executive. Nothing in this Section 2(b) shall be construed to waive the Executive’s rights, if any, under existing law including, without limitation, the Family and Medical Leave Act of 1993, 29 U.S.C. §2601 et seq. and the Americans with Disabilities Act, 42 U.S.C. §12101 et seq.

(c) Termination by Company for Cause. The Company may terminate the Executive's employment hereunder for Cause by a vote of the Board at a meeting of the Board called and held for such purpose. For purposes of this Agreement, "Cause" shall mean: (i) conduct by the Executive constituting a material act of misconduct in connection with the performance of his duties, including, without limitation, misappropriation of funds or property of the Company or any of its subsidiaries or affiliates other than the occasional, customary and de minimis use of Company property for personal purposes; (ii) the commission by the Executive of any felony or a misdemeanor involving moral turpitude, deceit, dishonesty or fraud, or any conduct by the Executive that would reasonably be expected to result in material injury or reputational harm to the Company or any of its subsidiaries and affiliates if he were retained in his position; (iii) continued non-performance by the Executive of his duties hereunder (other than by reason of the Executive's physical or mental illness, incapacity or disability) which has continued for more than 30 days following written notice of such non-performance from the Board; (iv) a breach by the Executive of any of the provisions contained in Section 5 of this Agreement; (v) a material violation by the Executive of the Company's written employment policies, or (vi) failure to cooperate with a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, after being instructed by the Company to cooperate, or the willful destruction or failure to preserve documents or other materials known to be relevant to such investigation or the inducement of others to fail to cooperate or to produce documents or other materials in connection with such investigation.

(d) Termination Without Cause. The Company may terminate the Executive's employment hereunder at any time without Cause. Any termination by the Company of the Executive's employment under this Agreement which does not constitute a termination for Cause under Section 2(c) and does not result from the death or disability of the Executive under Section 2(a) or (b) shall be deemed a termination without Cause. A notice by the Company of non-renewal of this Agreement shall not be construed as a termination without Cause.

(e) Termination by the Executive. The Executive may terminate his employment hereunder at any time for any reason, including but not limited to Good Reason. For purposes of this Agreement, "Good Reason" shall mean that the Executive has complied with the "Good Reason Process" (hereinafter defined) following the occurrence of any of the following events: (i) a material diminution in the Executive's responsibilities, authority or duties; (ii) a material diminution in the Executive's Base Salary except for across-the-board salary reductions based on the Company's financial performance similarly affecting all or substantially all senior management employees of the Company; (iii) a material change in the geographic location at which the Executive provides services to the Company; or (iv) the material breach of this Agreement by the Company. "Good Reason Process" shall mean that (i) the Executive reasonably determines in good faith that a "Good Reason" condition has occurred; (ii) the Executive notifies the Company in writing of the first occurrence of the Good Reason condition within 60 days of the first occurrence of such condition; (iii) the Executive cooperates in good faith with the Company's efforts, for a period not less than 30 days following such notice (the "Cure Period"), to remedy the condition; (iv) notwithstanding such efforts, the Good Reason condition continues to exist; and (v) the Executive terminates his employment within 60 days after the end of the Cure Period. If the Company cures the Good Reason condition during the Cure Period, Good Reason shall be deemed not to have occurred.

(f) Notice of Termination. Except for termination as specified in Section 2(a), any termination of the Executive's employment by the Company or any such termination by the Executive shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon.

(g) Date of Termination. "Date of Termination" shall mean: (i) if the Executive's employment is terminated by his death, the date of his death; (ii) if the Executive's employment is terminated on account of disability under Section 2(b) or by the Company for Cause under Section 2(c), the date on which Notice of Termination is given; (iii) if the Executive's employment is terminated by the Company under Section 2(d), 30 days after the date on which a Notice of Termination is given; (iv) if the Executive's employment is terminated by the Executive under Section 2(e) without Good Reason, 30 days after the date on which a Notice of Termination is given, and (v) if the Executive's employment is terminated by the Executive under Section 2(e) with Good Reason, the date on which a Notice of Termination is given after the end of the Cure Period. Notwithstanding the foregoing, in the event that the Executive gives a Notice of Termination to the Company, the Company may unilaterally accelerate the Date of Termination and such acceleration shall not result in a termination by the Company for purposes of this Agreement.

3. Compensation Upon Termination.

(a) Termination Generally. If the Executive's employment with the Company is terminated for any reason, the Company shall pay or provide to the Executive (or to his authorized representative or estate) any earned but unpaid base salary, incentive compensation earned but not yet paid, unpaid expense reimbursements, accrued but unused vacation and any vested benefits the Executive may have under any employee benefit plan of the Company (the "Accrued Benefit") on or before the time required by law but in no event more than 30 days after the Executive's Date of Termination.

(b) Termination of Employment by Reason of Death or Disability. If the Executive's employment is terminated by the Company under Section 2(a) by reason of death or disability under Section 2(b), then the Company shall through the Date of Termination, pay the Executive his Accrued Benefit. In addition,

(i) subject to the Executive (in case of disability only) signing a general release of claims in favor of the Company and related persons and entities in a form and manner satisfactory to the Company (the "Release") within the 21-day period following the Date of Termination and the expiration of the seven-day revocation period for the Release, the Company shall pay the Executive, or his estate, as the case may be, a lump sum amount equal to the target value of each of his outstanding performance equity awards under the Company's long-term incentive compensation program with a performance measurement period that has not ended as of the Date of Termination. Such amount shall be paid on the first payroll date that occurs at least 30 days after the Date of Termination;

(ii) upon the Date of Termination, all time-based restricted stock awards held by the Executive shall vest and become nonforfeitable.

(c) Termination by the Company Without Cause or by the Executive with Good Reason. If the Executive's employment is terminated by the Company without Cause as provided in Section 2(d), or the Executive terminates his employment for Good Reason as provided in Section 2(e), then the Company shall, through the Date of Termination, pay the Executive his Accrued Benefit. In addition:

(i) subject to the Executive signing the Release within the 21-day period following the Date of Termination and the expiration of the seven-day revocation period for the Release, the Company shall pay the Executive an amount equal to one times the sum of (A) the Executive's Base Salary and (B) the amount of the target value for each of his outstanding performance equity awards under the Company's long-term incentive compensation program with a performance measurement period that has not ended as of the Date of Termination (the "Severance Amount"). If such termination occurs within 12 months after a Change in Control, the Severance Amount shall be the sum of (A) the Executive's Base Salary and (B) the greater of the target value or the calculated value as of the date upon which a Change in Control occurred (the "Change in Control Date") for each of his outstanding performance equity awards as of the Change in Control Date under the Company's long-term incentive program with a performance measurement period that had not ended as of the Change in Control Date, with the Change in Control Date being deemed the last day of the performance measurement period. In the case of such a Change in Control, the calculated value of each such outstanding equity performance award under the Company's long-term incentive program shall be determined, if applicable, using a Closing Stock Price (as defined under the Company's long-term incentive program) that is equal to the fair market value, as determined by the Compensation Committee of the Board of Directors of the Company, of the total consideration paid or payable in the transaction resulting in the Change of Control for one share of common stock of the Company. The Severance Amount shall be paid out in a lump sum on the first payroll date that occurs at least 30 days after the Date of Termination; and

(ii) upon the Date of Termination, all time-based restricted stock awards held by the Executive shall vest and become nonforfeitable; and

(iii) subject to the Executive's copayment of premium amounts at the active employees' rate, the Executive may continue to participate in the Company's group health, dental and vision program for 18 months; provided, however, that the continuation of health benefits under this Section shall reduce and count against the Executive's rights under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA").

(d) Additional Limitation.

(i) Anything in this Agreement to the contrary notwithstanding, in the event that the amount of any compensation, payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, calculated in a manner consistent with Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and the applicable regulations thereunder (the "Severance Payments"), would be subject to the excise tax imposed by Section 4999 of the Code, the following provisions shall apply:

(A) If the Severance Payments, reduced by the sum of (1) the Excise Tax and (2) the total of the Federal, state, and local income and employment taxes payable by the Executive on the amount of the Severance Payments which are in excess of the Threshold Amount, are greater than or equal to the Threshold Amount, the Executive shall be entitled to the full benefits payable under this Agreement.

(B) If the Threshold Amount is less than (x) the Severance Payments, but greater than (y) the Severance Payments reduced by the sum of (1) the Excise Tax and (2) the total of the Federal, state, and local income and employment taxes on the amount of the Severance Payments which are in excess of the Threshold Amount, then the Severance Payments shall be reduced (but not below zero) to the extent necessary so that the sum of all Severance Payments shall not exceed the Threshold Amount. In such event, the Severance Payments shall be reduced in the following order: (1) cash payments not subject to Section 409A of the Code; (2) cash payments subject to Section 409A of the Code; (3) equity-based payments and acceleration; and (4) non-cash forms of benefits. To the extent any payment is to be made over time (e.g., in installments, etc.), then the payments shall be reduced in reverse chronological order.

(ii) For the purposes of this Section 3(d), "Threshold Amount" shall mean three times the Executive's "base amount" within the meaning of Section 280G(b)(3) of the Code and the regulations promulgated thereunder less one dollar (\$1.00); and "Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, and any interest or penalties incurred by the Executive with respect to such excise tax.

(iii) The determination as to which of the alternative provisions of this Section 3(d) shall apply to the Executive shall be made by a nationally recognized accounting firm selected by the Company (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the Date of Termination, if applicable, or at such earlier time as is reasonably requested by the Company or the Executive. For purposes of determining which of the alternative provisions of this Section 3(d) shall apply, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation applicable to individuals for the calendar year in which the determination is to be made, and state and local income taxes at the highest marginal rates of individual taxation in the state and locality of the Executive's residence on the Date of Termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. Any determination by the Accounting Firm shall be binding upon the Company and the Executive.

(e) Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

“Change in Control” shall mean any of the following:

(i) any “person,” as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Act”) (other than the Company, any of its subsidiaries, or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Company or any of its subsidiaries), together with all “affiliates” and “associates” (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the “beneficial owner” (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 40 percent or more of the combined voting power of the Company’s then outstanding securities having the right to vote in an election of the Board (“Voting Securities”) (in such case other than as a result of an acquisition of securities directly from the Company); or

(ii) the date a majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; or

(iii) the consummation of (A) any consolidation or merger of the Company where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, shares representing in the aggregate more than 50 percent of the voting shares of the Company issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any), or (B) any sale or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company.

Notwithstanding the foregoing, a “Change in Control” shall not be deemed to have occurred for purposes of the foregoing clause (i) solely as the result of an acquisition of securities by the Company which, by reducing the number of shares of Voting Securities outstanding, increases the proportionate number of Voting Securities beneficially owned by any person to 40 percent or more of the combined voting power of all of the then outstanding Voting Securities; provided, however, that if any person referred to in this sentence shall thereafter become the beneficial owner of any additional shares of Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from the Company) and immediately thereafter beneficially owns 40 percent or more of the combined voting power of all of the then outstanding Voting Securities, then a “Change in Control” shall be deemed to have occurred for purposes of the foregoing clause (i).

4. Section 409A.

(a) Anything in this Agreement to the contrary notwithstanding, if at the time of the Executive's separation from service within the meaning of Section 409A of the Code, the Company determines that the Executive is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that the Executive becomes entitled to under this Agreement on account of the Executive's separation from service would be considered deferred compensation subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment shall not be payable and such benefit shall not be provided until the date that is the earlier of (A) six months and one day after the Executive's separation from service, or (B) the Executive's death. If any such delayed cash payment is otherwise payable on an installment basis, the first payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision, and the balance of the installments shall be payable in accordance with their original schedule.

(b) To the extent that any payment or benefit described in this Agreement constitutes "non-qualified deferred compensation" under Section 409A of the Code, and to the extent that such payment or benefit is payable upon the Executive's termination of employment, then such payments or benefits shall be payable only upon the Executive's "separation from service." The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h).

(c) The parties intend that this Agreement will be administered in accordance with Section 409A of the Code. To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A of the Code, the provision shall be read in such a manner so that all payments hereunder comply with Section 409A of the Code. The parties agree that this Agreement may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Section 409A of the Code and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party.

(d) The Company makes no representation or warranty and shall have no liability to the Executive or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A of the Code but do not satisfy an exemption from, or the conditions of, such Section.

5. Confidential Information, Nonsolicitation and Cooperation.

(a) Confidential Information. As used in this Agreement, "Confidential Information" means information belonging to the Company which is of value to the Company in the course of conducting its business and the disclosure of which could result in a competitive or other disadvantage to the Company. Confidential Information includes, without limitation, financial information, reports, and forecasts; inventions, improvements and other intellectual property; trade secrets; know-how; designs, processes or formulae; software; market or sales information or plans; customer lists; and business plans, prospects and opportunities (such as possible acquisitions or dispositions of businesses or facilities) which have been discussed or considered by the management of the Company. Confidential Information includes information developed by the Executive in the course of the Executive's employment by the Company, as well as other information to which the Executive may have access in connection with the Executive's employment. Confidential Information also includes the confidential information of others with which the Company has a business relationship. Notwithstanding the foregoing, Confidential Information does not include information in the public domain, unless due to breach of the Executive's duties under Section 5(b).

(b) Confidentiality. The Executive understands and agrees that the Executive's employment creates a relationship of confidence and trust between the Executive and the Company with respect to all Confidential Information. At all times, both during the Executive's employment with the Company and after its termination, the Executive will keep in confidence and trust all such Confidential Information, and will not use or disclose any such Confidential Information without the written consent of the Company, except as may be necessary in the ordinary course of performing the Executive's duties to the Company.

(c) Documents, Records, etc. All documents, records, data, apparatus, equipment and other physical property, whether or not pertaining to Confidential Information, which are furnished to the Executive by the Company or are produced by the Executive in connection with the Executive's employment will be and remain the sole property of the Company. The Executive will return to the Company all such materials and property as and when requested by the Company. In any event, the Executive will return all such materials and property immediately upon termination of the Executive's employment for any reason. The Executive will not retain with the Executive any such material or property or any copies thereof after such termination.

(d) Nonsolicitation. During the Executive's employment with the Company and for 12 months thereafter, regardless of the reason for the termination, the Executive (i) will refrain from directly or indirectly employing, attempting to employ, recruiting or otherwise soliciting, inducing or influencing any person to leave employment with the Company (other than terminations of employment of subordinate employees undertaken in the course of the Executive's employment with the Company); and (ii) will refrain from soliciting or encouraging any customer or supplier to terminate or otherwise modify adversely its business relationship with the Company. The Executive understands that the restrictions set forth in this Section 5(d) are intended to protect the Company's interest in its Confidential Information and established employee, customer and supplier relationships and goodwill, and agrees that such restrictions are reasonable and appropriate for this purpose.

(e) Third-Party Agreements and Rights. The Executive hereby confirms that the Executive is not bound by the terms of any agreement with any previous employer or other party which restricts in any way the Executive's use or disclosure of information or the Executive's engagement in any business. The Executive represents to the Company that the Executive's execution of this Agreement, the Executive's employment with the Company and the performance of the Executive's proposed duties for the Company will not violate any obligations the Executive may have to any such previous employer or other party. In the Executive's work for the Company, the Executive will not disclose or make use of any information in violation of any agreements with or rights of any such previous employer or other party, and the Executive will not bring to the premises of the Company any copies or other tangible embodiments of non-public information belonging to or obtained from any such previous employment or other party.

(f) Litigation and Regulatory Cooperation. During and after the Executive's employment, the Executive shall cooperate fully with the Company in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of the Company which relate to events or occurrences that transpired while the Executive was employed by the Company. The Executive's full cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Company at mutually convenient times. During and after the Executive's employment, the Executive also shall cooperate fully with the Company in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while the Executive was employed by the Company. The Company shall reimburse the Executive for any reasonable out-of-pocket expenses incurred in connection with the Executive's performance of obligations pursuant to this Section 5(f).

(g) Injunction. The Executive agrees that it would be difficult to measure any damages caused to the Company which might result from any breach by the Executive of the promises set forth in this Section 5, and that in any event money damages would be an inadequate remedy for any such breach. Accordingly, subject to Section 6 of this Agreement, the Executive agrees that if the Executive breaches, or proposes to breach, any portion of this Agreement, the Company shall be entitled, in addition to all other remedies that it may have, to an injunction or other appropriate equitable relief to restrain any such breach without showing or proving any actual damage to the Company.

6. Arbitration of Disputes. Any controversy or claim arising out of or relating to this Agreement or the breach thereof or otherwise arising out of the Executive's employment or the termination of that employment (including, without limitation, any claims of unlawful employment discrimination whether based on age or otherwise) shall, to the fullest extent permitted by law, be settled by arbitration in any forum and form agreed upon by the parties or, in the absence of such an agreement, under the auspices of the American Arbitration Association ("AAA") in San Francisco, California in accordance with the Employment Dispute Resolution Rules of the AAA, including, but not limited to, the rules and procedures applicable to the selection of arbitrators. In the event that any person or entity other than the Executive or the Company may be a party with regard to any such controversy or claim, such controversy or claim shall be submitted to arbitration subject to such other person or entity's agreement. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. This Section 6 shall be specifically enforceable. Notwithstanding the foregoing, this Section 6 shall not preclude either party from pursuing a court action for the sole purpose of obtaining a temporary restraining order or a preliminary injunction in circumstances in which such relief is appropriate; provided that any other relief shall be pursued through an arbitration proceeding pursuant to this Section 6.

7. Consent to Jurisdiction. To the extent that any court action is permitted consistent with or to enforce Section 6 of this Agreement, the parties hereby consent to the jurisdiction of the Superior Court of the State of California and the United States District Court for the District of California. Accordingly, with respect to any such court action, the Executive (a) submits to the personal jurisdiction of such courts; (b) consents to service of process; and (c) waives any other requirement (whether imposed by statute, rule of court, or otherwise) with respect to personal jurisdiction or service of process.

8. Integration. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements between the parties concerning such subject matter.

9. Withholding. All payments made by the Company to the Executive under this Agreement shall be net of any tax or other amounts required to be withheld by the Company under applicable law.

10. Successor to the Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal representatives, executors, administrators, heirs, distributees, devisees and legatees. In the event of the Executive's death after his termination of employment but prior to the completion by the Company of all payments due him under this Agreement, the Company shall continue such payments to the Executive's beneficiary designated in writing to the Company prior to his death (or to his estate, if the Executive fails to make such designation).

11. Enforceability. If any portion or provision of this Agreement (including, without limitation, any portion or provision of any section of this Agreement) shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

12. Survival. The provisions of this Agreement shall survive the termination of this Agreement and/or the termination of the Executive's employment to the extent necessary to effectuate the terms contained herein.

13. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation of this Agreement, or the waiver by any party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

14. Notices. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by a nationally recognized overnight courier service or by registered or certified mail, postage prepaid, return receipt requested, to the Executive at the last address the Executive has filed in writing with the Company or, in the case of the Company, at its main offices, attention of the Board.

15. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Executive and by a duly authorized representative of the Company.

16. Governing Law. This is a California contract and shall be construed under and be governed in all respects by the laws of the State of California, without giving effect to the conflict of laws principles of such State. With respect to any disputes concerning federal law, such disputes shall be determined in accordance with the law as it would be interpreted and applied by the United States Court of Appeals for the Ninth Circuit.

17. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be taken to be an original; but such counterparts shall together constitute one and the same document.

18. Successor to Company. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform this Agreement to the same extent that the Company would be required to perform it if no succession had taken place. Failure of the Company to obtain an assumption of this Agreement at or prior to the effectiveness of any succession shall be a material breach of this Agreement.

19. Gender Neutral. Wherever used herein, a pronoun in the masculine gender shall be considered as including the feminine gender unless the context clearly indicates otherwise.

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IN WITNESS WHEREOF, the parties have executed this Agreement effective on the date and year first above written.

TERRENO REALTY CORPORATION

By: /s/ W. Blake Baird

Its: Chairman and Chief Executive Officer

EXECUTIVE

/s/ Andrew T. Burke

Name: Andrew T. Burke

SEVERANCE AGREEMENT

This Severance Agreement (“Agreement”) is made as of February 18, 2014, between Terreno Realty Corporation, a Maryland corporation (the “Company”), and John T. Meyer (the “Executive”).

WHEREAS, the Company desires to continue to employ the Executive and to provide the Executive with certain severance protection and the Executive desires to continue to be employed by the Company on the terms contained herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Term. The term of this Agreement shall extend from the date first written above (the “Commencement Date”) until the third anniversary of the Commencement Date. The Agreement shall be automatically extended for an additional one-year period beginning on the third anniversary of the Commencement Date and each anniversary thereof unless, not less than 90 days prior to each such date, either party shall have given notice to the other that it does not wish to extend this Agreement.

2. Termination. During the term of this Agreement, the Executive’s employment with the Company may be terminated without any breach of this Agreement under the following circumstances:

(a) Death. The Executive’s employment hereunder shall terminate upon his death.

(b) Disability. The Company may terminate the Executive’s employment if he is disabled and unable to perform the essential functions of the Executive’s then existing position or positions under this Agreement with or without reasonable accommodation for a period of 180 days (which need not be consecutive) in any 12-month period. If any question shall arise as to whether during any period the Executive is disabled so as to be unable to perform the essential functions of the Executive’s then existing position or positions with or without reasonable accommodation, the Executive may, and at the request of the Company shall, submit to the Company a certification in reasonable detail by a physician selected by the Company to whom the Executive or the Executive’s guardian has no reasonable objection as to whether the Executive is so disabled or how long such disability is expected to continue, and such certification shall for the purposes of this Agreement be conclusive of the issue. The Executive shall cooperate with any reasonable request of the physician in connection with such certification. If such question shall arise and the Executive shall fail to submit such certification, the Company’s determination of such issue shall be binding on the Executive. Nothing in this Section 2(b) shall be construed to waive the Executive’s rights, if any, under existing law including, without limitation, the Family and Medical Leave Act of 1993, 29 U.S.C. §2601 et seq. and the Americans with Disabilities Act, 42 U.S.C. §12101 et seq.

(c) Termination by Company for Cause. The Company may terminate the Executive's employment hereunder for Cause by a vote of the Board at a meeting of the Board called and held for such purpose. For purposes of this Agreement, "Cause" shall mean: (i) conduct by the Executive constituting a material act of misconduct in connection with the performance of his duties, including, without limitation, misappropriation of funds or property of the Company or any of its subsidiaries or affiliates other than the occasional, customary and de minimis use of Company property for personal purposes; (ii) the commission by the Executive of any felony or a misdemeanor involving moral turpitude, deceit, dishonesty or fraud, or any conduct by the Executive that would reasonably be expected to result in material injury or reputational harm to the Company or any of its subsidiaries and affiliates if he were retained in his position; (iii) continued non-performance by the Executive of his duties hereunder (other than by reason of the Executive's physical or mental illness, incapacity or disability) which has continued for more than 30 days following written notice of such non-performance from the Board; (iv) a breach by the Executive of any of the provisions contained in Section 5 of this Agreement; (v) a material violation by the Executive of the Company's written employment policies, or (vi) failure to cooperate with a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, after being instructed by the Company to cooperate, or the willful destruction or failure to preserve documents or other materials known to be relevant to such investigation or the inducement of others to fail to cooperate or to produce documents or other materials in connection with such investigation.

(d) Termination Without Cause. The Company may terminate the Executive's employment hereunder at any time without Cause. Any termination by the Company of the Executive's employment under this Agreement which does not constitute a termination for Cause under Section 2(c) and does not result from the death or disability of the Executive under Section 2(a) or (b) shall be deemed a termination without Cause. A notice by the Company of non-renewal of this Agreement shall not be construed as a termination without Cause.

(e) Termination by the Executive. The Executive may terminate his employment hereunder at any time for any reason, including but not limited to Good Reason. For purposes of this Agreement, "Good Reason" shall mean that the Executive has complied with the "Good Reason Process" (hereinafter defined) following the occurrence of any of the following events: (i) a material diminution in the Executive's responsibilities, authority or duties; (ii) a material diminution in the Executive's Base Salary except for across-the-board salary reductions based on the Company's financial performance similarly affecting all or substantially all senior management employees of the Company; (iii) a material change in the geographic location at which the Executive provides services to the Company; or (iv) the material breach of this Agreement by the Company. "Good Reason Process" shall mean that (i) the Executive reasonably determines in good faith that a "Good Reason" condition has occurred; (ii) the Executive notifies the Company in writing of the first occurrence of the Good Reason condition within 60 days of the first occurrence of such condition; (iii) the Executive cooperates in good faith with the Company's efforts, for a period not less than 30 days following such notice (the "Cure Period"), to remedy the condition; (iv) notwithstanding such efforts, the Good Reason condition continues to exist; and (v) the Executive terminates his employment within 60 days after the end of the Cure Period. If the Company cures the Good Reason condition during the Cure Period, Good Reason shall be deemed not to have occurred.

(f) Notice of Termination. Except for termination as specified in Section 2(a), any termination of the Executive's employment by the Company or any such termination by the Executive shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon.

(g) Date of Termination. "Date of Termination" shall mean: (i) if the Executive's employment is terminated by his death, the date of his death; (ii) if the Executive's employment is terminated on account of disability under Section 2(b) or by the Company for Cause under Section 2(c), the date on which Notice of Termination is given; (iii) if the Executive's employment is terminated by the Company under Section 2(d), 30 days after the date on which a Notice of Termination is given; (iv) if the Executive's employment is terminated by the Executive under Section 2(e) without Good Reason, 30 days after the date on which a Notice of Termination is given, and (v) if the Executive's employment is terminated by the Executive under Section 2(e) with Good Reason, the date on which a Notice of Termination is given after the end of the Cure Period. Notwithstanding the foregoing, in the event that the Executive gives a Notice of Termination to the Company, the Company may unilaterally accelerate the Date of Termination and such acceleration shall not result in a termination by the Company for purposes of this Agreement.

3. Compensation Upon Termination.

(a) Termination Generally. If the Executive's employment with the Company is terminated for any reason, the Company shall pay or provide to the Executive (or to his authorized representative or estate) any earned but unpaid base salary, incentive compensation earned but not yet paid, unpaid expense reimbursements, accrued but unused vacation and any vested benefits the Executive may have under any employee benefit plan of the Company (the "Accrued Benefit") on or before the time required by law but in no event more than 30 days after the Executive's Date of Termination.

(b) Termination of Employment by Reason of Death or Disability. If the Executive's employment is terminated by the Company under Section 2(a) by reason of death or disability under Section 2(b), then the Company shall through the Date of Termination, pay the Executive his Accrued Benefit. In addition,

(i) subject to the Executive (in case of disability only) signing a general release of claims in favor of the Company and related persons and entities in a form and manner satisfactory to the Company (the "Release") within the 21-day period following the Date of Termination and the expiration of the seven-day revocation period for the Release, the Company shall pay the Executive, or his estate, as the case may be, a lump sum amount equal to the target value of each of his outstanding performance equity awards under the Company's long-term incentive compensation program with a performance measurement period that has not ended as of the Date of Termination. Such amount shall be paid on the first payroll date that occurs at least 30 days after the Date of Termination;

(ii) upon the Date of Termination, all time-based restricted stock awards held by the Executive shall vest and become nonforfeitable.

(c) Termination by the Company Without Cause or by the Executive with Good Reason. If the Executive's employment is terminated by the Company without Cause as provided in Section 2(d), or the Executive terminates his employment for Good Reason as provided in Section 2(e), then the Company shall, through the Date of Termination, pay the Executive his Accrued Benefit. In addition:

(i) subject to the Executive signing the Release within the 21-day period following the Date of Termination and the expiration of the seven-day revocation period for the Release, the Company shall pay the Executive an amount equal to one times the sum of (A) the Executive's Base Salary and (B) the amount of the target value for each of his outstanding performance equity awards under the Company's long-term incentive compensation program with a performance measurement period that has not ended as of the Date of Termination (the "Severance Amount"). If such termination occurs within 12 months after a Change in Control, the Severance Amount shall be the sum of (A) the Executive's Base Salary and (B) the greater of the target value or the calculated value as of the date upon which a Change in Control occurred (the "Change in Control Date") for each of his outstanding performance equity awards as of the Change in Control Date under the Company's long-term incentive program with a performance measurement period that had not ended as of the Change in Control Date, with the Change in Control Date being deemed the last day of the performance measurement period. In the case of such a Change in Control, the calculated value of each such outstanding equity performance award under the Company's long-term incentive program shall be determined, if applicable, using a Closing Stock Price (as defined under the Company's long-term incentive program) that is equal to the fair market value, as determined by the Compensation Committee of the Board of Directors of the Company, of the total consideration paid or payable in the transaction resulting in the Change of Control for one share of common stock of the Company. The Severance Amount shall be paid out in a lump sum on the first payroll date that occurs at least 30 days after the Date of Termination; and

(ii) upon the Date of Termination, all time-based restricted stock awards held by the Executive shall vest and become nonforfeitable; and

(iii) subject to the Executive's copayment of premium amounts at the active employees' rate, the Executive may continue to participate in the Company's group health, dental and vision program for 18 months; provided, however, that the continuation of health benefits under this Section shall reduce and count against the Executive's rights under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA").

(d) Additional Limitation.

(i) Anything in this Agreement to the contrary notwithstanding, in the event that the amount of any compensation, payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, calculated in a manner consistent with Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and the applicable regulations thereunder (the "Severance Payments"), would be subject to the excise tax imposed by Section 4999 of the Code, the following provisions shall apply:

(A) If the Severance Payments, reduced by the sum of (1) the Excise Tax and (2) the total of the Federal, state, and local income and employment taxes payable by the Executive on the amount of the Severance Payments which are in excess of the Threshold Amount, are greater than or equal to the Threshold Amount, the Executive shall be entitled to the full benefits payable under this Agreement.

(B) If the Threshold Amount is less than (x) the Severance Payments, but greater than (y) the Severance Payments reduced by the sum of (1) the Excise Tax and (2) the total of the Federal, state, and local income and employment taxes on the amount of the Severance Payments which are in excess of the Threshold Amount, then the Severance Payments shall be reduced (but not below zero) to the extent necessary so that the sum of all Severance Payments shall not exceed the Threshold Amount. In such event, the Severance Payments shall be reduced in the following order: (1) cash payments not subject to Section 409A of the Code; (2) cash payments subject to Section 409A of the Code; (3) equity-based payments and acceleration; and (4) non-cash forms of benefits. To the extent any payment is to be made over time (e.g., in installments, etc.), then the payments shall be reduced in reverse chronological order.

(ii) For the purposes of this Section 3(d), "Threshold Amount" shall mean three times the Executive's "base amount" within the meaning of Section 280G(b)(3) of the Code and the regulations promulgated thereunder less one dollar (\$1.00); and "Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, and any interest or penalties incurred by the Executive with respect to such excise tax.

(iii) The determination as to which of the alternative provisions of this Section 3(d) shall apply to the Executive shall be made by a nationally recognized accounting firm selected by the Company (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the Date of Termination, if applicable, or at such earlier time as is reasonably requested by the Company or the Executive. For purposes of determining which of the alternative provisions of this Section 3(d) shall apply, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation applicable to individuals for the calendar year in which the determination is to be made, and state and local income taxes at the highest marginal rates of individual taxation in the state and locality of the Executive's residence on the Date of Termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. Any determination by the Accounting Firm shall be binding upon the Company and the Executive.

(e) Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

“Change in Control” shall mean any of the following:

(i) any “person,” as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Act”) (other than the Company, any of its subsidiaries, or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Company or any of its subsidiaries), together with all “affiliates” and “associates” (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the “beneficial owner” (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 40 percent or more of the combined voting power of the Company’s then outstanding securities having the right to vote in an election of the Board (“Voting Securities”) (in such case other than as a result of an acquisition of securities directly from the Company); or

(ii) the date a majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; or

(iii) the consummation of (A) any consolidation or merger of the Company where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, shares representing in the aggregate more than 50 percent of the voting shares of the Company issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any), or (B) any sale or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company.

Notwithstanding the foregoing, a “Change in Control” shall not be deemed to have occurred for purposes of the foregoing clause (i) solely as the result of an acquisition of securities by the Company which, by reducing the number of shares of Voting Securities outstanding, increases the proportionate number of Voting Securities beneficially owned by any person to 40 percent or more of the combined voting power of all of the then outstanding Voting Securities; provided, however, that if any person referred to in this sentence shall thereafter become the beneficial owner of any additional shares of Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from the Company) and immediately thereafter beneficially owns 40 percent or more of the combined voting power of all of the then outstanding Voting Securities, then a “Change in Control” shall be deemed to have occurred for purposes of the foregoing clause (i).

4. Section 409A.

(a) Anything in this Agreement to the contrary notwithstanding, if at the time of the Executive's separation from service within the meaning of Section 409A of the Code, the Company determines that the Executive is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that the Executive becomes entitled to under this Agreement on account of the Executive's separation from service would be considered deferred compensation subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment shall not be payable and such benefit shall not be provided until the date that is the earlier of (A) six months and one day after the Executive's separation from service, or (B) the Executive's death. If any such delayed cash payment is otherwise payable on an installment basis, the first payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision, and the balance of the installments shall be payable in accordance with their original schedule.

(b) To the extent that any payment or benefit described in this Agreement constitutes "non-qualified deferred compensation" under Section 409A of the Code, and to the extent that such payment or benefit is payable upon the Executive's termination of employment, then such payments or benefits shall be payable only upon the Executive's "separation from service." The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h).

(c) The parties intend that this Agreement will be administered in accordance with Section 409A of the Code. To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A of the Code, the provision shall be read in such a manner so that all payments hereunder comply with Section 409A of the Code. The parties agree that this Agreement may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Section 409A of the Code and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party.

(d) The Company makes no representation or warranty and shall have no liability to the Executive or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A of the Code but do not satisfy an exemption from, or the conditions of, such Section.

5. Confidential Information, Nonsolicitation and Cooperation.

(a) Confidential Information. As used in this Agreement, "Confidential Information" means information belonging to the Company which is of value to the Company in the course of conducting its business and the disclosure of which could result in a competitive or other disadvantage to the Company. Confidential Information includes, without limitation, financial information, reports, and forecasts; inventions, improvements and other intellectual property; trade secrets; know-how; designs, processes or formulae; software; market or sales information or plans; customer lists; and business plans, prospects and opportunities (such as possible acquisitions or dispositions of businesses or facilities) which have been discussed or considered by the management of the Company. Confidential Information includes information developed by the Executive in the course of the Executive's employment by the Company, as well as other information to which the Executive may have access in connection with the Executive's employment. Confidential Information also includes the confidential information of others with which the Company has a business relationship. Notwithstanding the foregoing, Confidential Information does not include information in the public domain, unless due to breach of the Executive's duties under Section 5(b).

(b) Confidentiality. The Executive understands and agrees that the Executive's employment creates a relationship of confidence and trust between the Executive and the Company with respect to all Confidential Information. At all times, both during the Executive's employment with the Company and after its termination, the Executive will keep in confidence and trust all such Confidential Information, and will not use or disclose any such Confidential Information without the written consent of the Company, except as may be necessary in the ordinary course of performing the Executive's duties to the Company.

(c) Documents, Records, etc. All documents, records, data, apparatus, equipment and other physical property, whether or not pertaining to Confidential Information, which are furnished to the Executive by the Company or are produced by the Executive in connection with the Executive's employment will be and remain the sole property of the Company. The Executive will return to the Company all such materials and property as and when requested by the Company. In any event, the Executive will return all such materials and property immediately upon termination of the Executive's employment for any reason. The Executive will not retain with the Executive any such material or property or any copies thereof after such termination.

(d) Nonsolicitation. During the Executive's employment with the Company and for 12 months thereafter, regardless of the reason for the termination, the Executive (i) will refrain from directly or indirectly employing, attempting to employ, recruiting or otherwise soliciting, inducing or influencing any person to leave employment with the Company (other than terminations of employment of subordinate employees undertaken in the course of the Executive's employment with the Company); and (ii) will refrain from soliciting or encouraging any customer or supplier to terminate or otherwise modify adversely its business relationship with the Company. The Executive understands that the restrictions set forth in this Section 5(d) are intended to protect the Company's interest in its Confidential Information and established employee, customer and supplier relationships and goodwill, and agrees that such restrictions are reasonable and appropriate for this purpose.

(e) Third-Party Agreements and Rights. The Executive hereby confirms that the Executive is not bound by the terms of any agreement with any previous employer or other party which restricts in any way the Executive's use or disclosure of information or the Executive's engagement in any business. The Executive represents to the Company that the Executive's execution of this Agreement, the Executive's employment with the Company and the performance of the Executive's proposed duties for the Company will not violate any obligations the Executive may have to any such previous employer or other party. In the Executive's work for the Company, the Executive will not disclose or make use of any information in violation of any agreements with or rights of any such previous employer or other party, and the Executive will not bring to the premises of the Company any copies or other tangible embodiments of non-public information belonging to or obtained from any such previous employment or other party.

(f) Litigation and Regulatory Cooperation. During and after the Executive's employment, the Executive shall cooperate fully with the Company in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of the Company which relate to events or occurrences that transpired while the Executive was employed by the Company. The Executive's full cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Company at mutually convenient times. During and after the Executive's employment, the Executive also shall cooperate fully with the Company in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while the Executive was employed by the Company. The Company shall reimburse the Executive for any reasonable out-of-pocket expenses incurred in connection with the Executive's performance of obligations pursuant to this Section 5(f).

(g) Injunction. The Executive agrees that it would be difficult to measure any damages caused to the Company which might result from any breach by the Executive of the promises set forth in this Section 5, and that in any event money damages would be an inadequate remedy for any such breach. Accordingly, subject to Section 6 of this Agreement, the Executive agrees that if the Executive breaches, or proposes to breach, any portion of this Agreement, the Company shall be entitled, in addition to all other remedies that it may have, to an injunction or other appropriate equitable relief to restrain any such breach without showing or proving any actual damage to the Company.

6. Arbitration of Disputes. Any controversy or claim arising out of or relating to this Agreement or the breach thereof or otherwise arising out of the Executive's employment or the termination of that employment (including, without limitation, any claims of unlawful employment discrimination whether based on age or otherwise) shall, to the fullest extent permitted by law, be settled by arbitration in any forum and form agreed upon by the parties or, in the absence of such an agreement, under the auspices of the American Arbitration Association ("AAA") in San Francisco, California in accordance with the Employment Dispute Resolution Rules of the AAA, including, but not limited to, the rules and procedures applicable to the selection of arbitrators. In the event that any person or entity other than the Executive or the Company may be a party with regard to any such controversy or claim, such controversy or claim shall be submitted to arbitration subject to such other person or entity's agreement. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. This Section 6 shall be specifically enforceable. Notwithstanding the foregoing, this Section 6 shall not preclude either party from pursuing a court action for the sole purpose of obtaining a temporary restraining order or a preliminary injunction in circumstances in which such relief is appropriate; provided that any other relief shall be pursued through an arbitration proceeding pursuant to this Section 6.

7. Consent to Jurisdiction. To the extent that any court action is permitted consistent with or to enforce Section 6 of this Agreement, the parties hereby consent to the jurisdiction of the Superior Court of the State of California and the United States District Court for the District of California. Accordingly, with respect to any such court action, the Executive (a) submits to the personal jurisdiction of such courts; (b) consents to service of process; and (c) waives any other requirement (whether imposed by statute, rule of court, or otherwise) with respect to personal jurisdiction or service of process.

8. Integration. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements between the parties concerning such subject matter.

9. Withholding. All payments made by the Company to the Executive under this Agreement shall be net of any tax or other amounts required to be withheld by the Company under applicable law.

10. Successor to the Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal representatives, executors, administrators, heirs, distributees, devisees and legatees. In the event of the Executive's death after his termination of employment but prior to the completion by the Company of all payments due him under this Agreement, the Company shall continue such payments to the Executive's beneficiary designated in writing to the Company prior to his death (or to his estate, if the Executive fails to make such designation).

11. Enforceability. If any portion or provision of this Agreement (including, without limitation, any portion or provision of any section of this Agreement) shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

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15. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Executive and by a duly authorized representative of the Company.

16. Governing Law. This is a California contract and shall be construed under and be governed in all respects by the laws of the State of California, without giving effect to the conflict of laws principles of such State. With respect to any disputes concerning federal law, such disputes shall be determined in accordance with the law as it would be interpreted and applied by the United States Court of Appeals for the Ninth Circuit.

17. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be taken to be an original; but such counterparts shall together constitute one and the same document.

18. Successor to Company. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform this Agreement to the same extent that the Company would be required to perform it if no succession had taken place. Failure of the Company to obtain an assumption of this Agreement at or prior to the effectiveness of any succession shall be a material breach of this Agreement.

19. Gender Neutral. Wherever used herein, a pronoun in the masculine gender shall be considered as including the feminine gender unless the context clearly indicates otherwise.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have executed this Agreement effective on the date and year first above written.

TERRENO REALTY CORPORATION

By: /s/ W. Blake Baird

Its: Chairman and Chief Executive Officer

EXECUTIVE

/s/ John T. Meyer

Name: John T. Meyer

	<i>For the Year Ended December 31,</i>				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Earnings					
Income (loss) from continuing operations	\$14,601	\$10,718	\$ 2,451	\$(2,031)	\$(5,807)
Add:					
Fixed charges	10,021	6,975	6,526	5,531	2,648
Capitalized interest	(300)	(303)	(232)	—	—
Total earnings	<u>\$24,322</u>	<u>\$17,390</u>	<u>\$ 8,745</u>	<u>\$ 3,500</u>	<u>\$(3,159)</u>
Fixed Charges					
Add:					
Interest expensed	\$ 9,639	\$ 6,591	\$ 6,214	\$ 5,472	\$ 2,612
Capitalized interest	300	303	232	—	—
Estimate of the interest within rental expense	82	81	80	59	36
Total Fixed Charges	10,021	6,975	6,526	5,531	2,648
Preferred stock dividends	3,565	3,565	3,565	1,604	—
Combined Fixed Charges and Preferred Stock Dividends	<u>\$13,586</u>	<u>\$10,540</u>	<u>\$10,091</u>	<u>\$ 7,135</u>	<u>\$ 2,648</u>
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends	1.79	1.65	0.87	0.49(1)	— (1)

(1) Fixed charges exceed earnings by \$2.0 million and \$5.8 million for the years ended December 31, 2012 and 2011, respectively

List of Subsidiaries of Terreno Realty Corporation:

<u>Name of Subsidiary</u>	<u>Jurisdiction of Organization or Incorporation</u>
Terreno Realty LLC	Delaware
Terreno Fortune/Qume LLC	Delaware
Terreno Warm Springs I/II LLC	Delaware
Terreno 238 Lawrence LLC	Delaware
Terreno Rialto LLC	Delaware
Terreno Maltese LLC	Delaware
Terreno Middlebrook LLC	Delaware
Terreno Interstate LLC	Delaware
Terreno 299 Lawrence LLC	Delaware
Terreno Kent 188 LLC	Delaware
Terreno Ahern LLC	Delaware
Terreno 10 th Avenue LLC	Delaware
Terreno 60 th Avenue LLC	Delaware
Terreno Dorsey Run LLC	Delaware
Terreno Belleville LLC	Delaware
Terreno 630 Glasgow LLC	Delaware
Terreno 8730 Bollman LLC	Delaware
Terreno Dell LLC	Delaware
Terreno 70 th Avenue LLC	Delaware
Terreno 19601 Hamilton LLC	Delaware
Terreno 39 th Street LLC	Delaware
Terreno 620 Division LLC	Delaware
Terreno 48 th Avenue LLC	Delaware
Terreno Clawiter LLC	Delaware
Terreno Valley Corporate LLC	Delaware
Terreno Global Plaza LLC	Delaware
Terreno Garfield LLC	Delaware
Terreno Whittier LLC	Delaware
Terreno Caribbean LLC	Delaware
Terreno 78 th Avenue LLC	Delaware
Terreno Manhattan Beach LLC	Delaware
Terreno Carlton Court LLC	Delaware
Terreno Troy Hill LLC	Delaware
Terreno 26 th Street LLC	Delaware
Terreno Sweitzer LLC	Delaware
Terreno 17600 WVH LLC	Delaware
Terreno 631 Brennan LLC	Delaware

Terreno South Main LLC	Delaware
Terreno 1 Dodge Drive LLC	Delaware
Terreno 101st Road LLC	Delaware
Terreno 107th Ave LLC	Delaware
Terreno 14611 Broadway LLC	Delaware
Terreno 17 Madison LLC	Delaware
Terreno 240 Littlefield LLC	Delaware
Terreno 341 Michele LLC	Delaware
Terreno 3601 Pennsy LLC	Delaware
Terreno 4230 Forbes LLC	Delaware
Terreno 465 Meadow LLC	Delaware
Terreno 550 Delancy LLC	Delaware
Terreno 60 Ethel LLC	Delaware
Terreno 8215 Dorsey LLC	Delaware
Terreno Airgate LLC	Delaware
Terreno America's Gateway LLC	Delaware
Terreno Melanie I LLC and Terreno Melanie II LLC	Delaware
Terreno Route 100 LLC	Delaware
Terreno SeaTac 8th Avenue LLC	Delaware
Terreno 14605 Miller LLC	Delaware
Terreno 20 Pulaski LLC	Delaware
Terreno 3401 Lind LLC	Delaware
Terreno 747 Glasgow LLC	Delaware
Terreno 75th Ave LLC	Delaware
Terreno 79th Ave South LLC	Delaware
Terreno 900 Hart LLC	Delaware
Terreno Auburn 1307 LLC	Delaware
Terreno Burroughs LLC	Delaware
Terreno California LLC	Delaware
Terreno Hampton LLC	Delaware
Terreno Junction LLC	Delaware
Terreno Kent 216th LLC	Delaware
Terreno Las Hermanas LLC	Delaware
Terreno NW 131st Street LLC	Delaware
Terreno Park Union City LLC	Delaware
Terreno Parkway LLC	Delaware
Terreno SW 34th LLC	Delaware
Terreno Terminal Way LLC	Delaware
Terreno 10100 NW 25th LLC	Delaware
Terreno 180 Manor LLC	Delaware
Terreno 22 Madison LLC	Delaware
Terreno 4225 2nd Avenue South LLC	Delaware
Terreno 9070 Junction LLC	Delaware
Terreno Ahern II LLC	Delaware
Terreno Kent 190th LLC	Delaware
Terreno Kent Corporate Park LLC	Delaware

Terreno MITC LLC

Delaware

Terreno NW 81st LLC

Delaware

Terreno Olympic LLC

Delaware

Terreno V Street LLC

Delaware

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-173850) and related Prospectus of Terreno Realty Corporation,
- (2) Registration Statement (Form S-8 No. 333-164895) pertaining to Terreno Realty Corporation's 2010 Equity Incentive Plan, as amended, and
- (3) Registration Statement (Form S-3 No. 333-189561) and related Prospectus of Terreno Realty Corporation;

of our reports dated February 10, 2016, with respect to the consolidated financial statements and schedule of Terreno Realty Corporation and the effectiveness of internal control over financial reporting of Terreno Realty Corporation included in this Annual Report (Form 10-K) of Terreno Realty Corporation for the year ended December 31, 2015.

/s/ Ernst & Young LLP

San Francisco, California

February 10, 2016

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, W. Blake Baird, certify that:

1. I have reviewed this Annual Report on Form 10-K of Terreno Realty Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 10, 2016

/s/ W. Blake Baird

Chairman and Chief Executive Officer
(Principal Executive Officer)

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jaime J. Cannon, certify that:

1. I have reviewed this Annual Report on Form 10-K of Terreno Realty Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 10, 2016

/s/ Jaime J. Cannon
Chief Financial Officer
(Principal Financial Officer)

Certification of President Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael A. Coke, certify that:

1. I have reviewed this Annual Report on Form 10-K of Terreno Realty Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 10, 2016

/s/ Michael A. Coke
President

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Terreno Realty Corporation (the “Company”), hereby certifies, to his knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 10, 2016

/s/ W. Blake Baird

Chairman and Chief Executive Officer
(Principal Executive Officer)

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Terreno Realty Corporation (the “Company”), hereby certifies, to his knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 10, 2016

/s/ Jaime J. Cannon

Chief Financial Officer
(Principal Financial Officer)

Certification of President

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Terreno Realty Corporation (the “Company”), hereby certifies, to his knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 10, 2016

/s/ Michael A. Coke

President