Terreno Realty Corp
Form 10-K
February 11, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

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	**27-1262675**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification Number)**
101 Montgomery Street, Suite 200	
San Francisco, CA	**94104**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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

Title of Each Class	Name of Exchange on Which Registered
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 x 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 x

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 x 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 x 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. x

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	x

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 x

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, 2014, the last business day of the Registrant s most recently completed second fiscal quarter: $622,488,339. (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 42,869,463 shares of its common stock, $0.01 par value per share, outstanding as of February 10, 2015.

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 2015 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 2014 fiscal year pursuant to Regulation 14A.

Terreno Realty Corporation

Annual Report on Form 10-K

for the Year Ended December 31, 2014

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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 project , result , should , will , seek , target , see , likely , position , opportunity , and similar expressions which do not relate solely t 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;

our failure to qualify or maintain our status as a real estate investment trust (REIT) and possible adverse changes to tax laws;

uninsured or underinsured losses relating to our properties;

environmental uncertainties and risks related to natural disasters;

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- 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 op 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 88.8% of our total portfolio square footage as of December 31, 2014), flex (including light industrial and research and development, or R&D) (approximately 9.4%) and trans-shipment (approximately 1.8%). 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, 2014, we owned 126 buildings (including one building held for sale) aggregating approximately 9.3 million square feet and two improved land parcels consisting of 3.5 acres, which we purchased for an aggregate purchase price of approximately $851.5 million, including the assumption of mortgage loans payable of approximately $63.9 million, which includes mortgage premiums of approximately $1.9 million. As of December 31, 2014, our properties were approximately 93.7% leased to 299 customers, the largest of which accounted for approximately 5.3% 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 at a price per share of $20.00. The net proceeds of our initial public offering were approximately $162.8 million after deducting the full underwriting discount of approximately $10.5 million and other offering expenses of approximately $1.7 million. We received net proceeds of approximately $7.0 million from our concurrent private placement.

On January 13, 2012, we completed a public follow-on offering of 4,000,000 shares of our common stock, including 93,000 shares purchased by our senior management and directors, at a price per share of $14.25. On February 13, 2012, we sold an additional 61,853 shares of our common stock at a price per share of $14.25 upon the exercise by the underwriters of their option to purchase additional shares. No underwriting discount or commission was paid on the shares sold to such officers and directors. The net proceeds of the offering, after deducting the underwriting discount and offering costs, were approximately $54.7 million. We used approximately $41.0 million of the net proceeds to repay outstanding borrowings under our revolving credit facility on January 13, 2012 and used the remainder of the net proceeds to invest in industrial properties and for general business purposes.

On July 19, 2012, we completed a public offering of 1,840,000 shares of our 7.75% Series A Cumulative Redeemable Preferred Stock (the Series A Preferred Stock), including 240,000 shares sold upon the exercise by the underwriters of their option to purchase additional shares, at a price per share of $25.00. The net proceeds of the offering were approximately $44.3 million after deducting the underwriting discount and other offering expenses of approximately $1.7 million. We used the net proceeds to reduce outstanding borrowings under our revolving credit facility.

On February 19, 2013, we completed a public follow-on offering of 5,750,000 shares of our common stock at a price per share of $16.60, including 90,325 shares that were sold in the offering to our executive and senior officers and members of our board of directors. No underwriting discount or commission was paid on the shares

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sold to such officers and directors. The net proceeds of the offering, after deducting the underwriting discount and offering costs, were approximately $90.8 million. We used approximately $65.4 million of the net proceeds to repay outstanding borrowings under our revolving credit facility and the remaining net proceeds to invest in industrial properties and for general business purposes.

On July 11, 2013, we completed a public follow-on offering of 5,750,000 shares of our common stock at a price per share of $18.25, including 43,250 shares that were sold in the offering to our executive and senior officers and members of our board of directors. No underwriting discount or commission was paid on the shares sold to such officers and directors. The net proceeds of the offering were approximately $99.9 million after deducting the underwriting discount and offering costs of approximately $5.0 million. We used approximately $6.5 million of the net proceeds to repay outstanding borrowings under our revolving credit facility and the remaining net proceeds to acquire industrial properties and for general business purposes.

On May 22, 2014, we completed a public follow-on offering of 8,050,000 shares of our common stock at a price per share of $17.75. The net proceeds of the follow-on offering were approximately $136.5 million after deducting the underwriting discount and offering costs of approximately $6.4 million. We used approximately $100.0 million of the net proceeds to repay outstanding borrowings under our revolving credit facility and the remaining net proceeds to acquire industrial properties and for general business purposes.

On December 9, 2014, we completed a public follow-on offering of 9,775,000 shares of our common stock at a price per share of $19.60. The net proceeds of the follow-on offering were approximately $183.0 million after deducting the underwriting discount and offering costs of approximately $8.6 million. We intend to use the net proceeds to acquire industrial properties and for general corporate purposes.

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 invest 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 88.8% of our total portfolio square footage as of December 31, 2014)

- Single and multiple tenant facilities that typically serve tenants greater than 30,000 square feet of space
- Generally less than 20% office space
- 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

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Flex (including light industrial and R&D, approximately 9.4% of our total portfolio square footage as of December 31, 2014)

- Single and multiple tenant facilities that typically serve tenants less than 30,000 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 1.8% of our total portfolio square footage as of December 31, 2014)

- Includes truck terminals and airport on-tarmac 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-tenanting 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.

We have no current intention to acquire undeveloped industrial land or to pursue ground up development. However, we may pursue redevelopment 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 or portfolios of properties. We may also acquire industrial properties through the acquisition of other corporations or entities that own industrial real estate. We will opportunistically target

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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, 2014, we acquired 37 unstabilized properties of which 24 have been stabilized.

We may 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 will be reinvested into properties that are expected to provide better prospective returns or returned to shareholders. We have disposed of two properties since inception for a cumulative sales price of approximately $36.0 million and a total gain of approximately $6.8 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.

- ***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 and senior officers is based solely on our total shareholder return exceeding the total shareholder return of the MSCI U.S. REIT Index 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
  - 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;

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- maintain a fixed charge coverage ratio in excess of 2.0x;
- 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 obtain an investment grade rating and be in a position to issue unsecured debt and additional perpetual preferred stock. Prior to attaining an investment grade rating, we intend to primarily utilize credit facilities, recourse bank term loans, or non-recourse debt secured by individual properties or pools of properties with a targeted maximum loan-to-value of 65% at the time of financing, 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 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, 2014 and 2013.

Employees

As of February 11, 2015, we have 18 employees. None of our employees is a member of any union.

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 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 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, owner-users, 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, 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;
- 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

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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.

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. 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, 2014, there were no borrowings outstanding on the revolving credit facility.

The availability and timing of cash distributions is uncertain.

In 2013 and 2014, we made quarterly distributions (which we also refer to as dividends, in this Report on Form 10-K and in the other documents we file with the Securities and Exchange Commission) 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 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

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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.

Failure of the projected improvement in industrial operating fundamentals may adversely affect our ability to execute our business plan.

A substantial part of our business plan is based on our belief that industrial operating fundamentals are expected to improve over the next several years. We cannot assure you as to whether or when industrial operating fundamentals will in fact improve or to what extent they improve. In the event conditions in the industry do not improve when and as we expect, or deteriorate, our ability to execute our business plan may be adversely affected.

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. 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. For example, as of December 31, 2014, approximately 28.1% of our rentable square feet was located in Northern New Jersey / New York City, representing approximately 27.9% 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.

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.

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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 the majority 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 more of our 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.

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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, 2014, we had total debt outstanding of approximately $304.5 million, which consisted of our $200.0 million of term loans 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 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;
- 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, 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 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 revolving credit facility, our $200.0 million of term loans 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, a five-year $50.0 million term loan, a seven-year $50.0 million term loan and a five-year $100.0 million term loan. We have agreed to guarantee the obligations of the borrower (a wholly-owned subsidiary) under our revolving credit facility and our term loans. Our revolving credit facility and our term loans 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. 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 have 120 days under our revolving 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 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.

In addition, any unsecured debt agreements we enter into 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 ratings could negatively affect our financing activity.

The credit ratings of the senior unsecured long-term debt that we may incur in the future and preferred stock we may issue in the future will be based on our operating performance, liquidity and leverage ratios, overall financial position and other factors employed by the credit rating agencies in their rating analyses of us. Our credit ratings 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 obtain or maintain our credit ratings, and in the event our

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credit ratings are downgraded, we would likely incur higher borrowing costs and may encounter difficulty in obtaining additional financing. Also, a downgrade in our credit ratings may trigger additional payments or other negative consequences under our future credit facilities and debt instruments. For example, if our credit ratings of any future senior unsecured long-term debt are downgraded to below investment grade levels, we may not be able to obtain or maintain extensions on certain of our then existing debt. Adverse changes in our credit ratings 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 an interest rate cap to hedge the variable cash flows associated with our existing seven-year $50.0 million variable-rate term loan. 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

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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 five properties containing 641,593 square feet, a non-binding letter of intent with a third-party seller to acquire one industrial property containing 34,200 square feet and an agreement with a third-party purchaser to sell one property containing 84,961 square feet 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 disposition are subject to the completion of satisfactory due diligence, various closing conditions and with respect to one of the properties, the consent of the mortgage lender, 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 disposition, 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

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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

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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 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.

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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

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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, such as those adopted by California and the Regional Greenhouse Gas Initiative of various northeastern states, 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

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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.

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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.

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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% 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% 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% 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% 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% 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 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 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 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.

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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;
- 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, 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.

We have a credit facility that consists of a $100.0 million revolving credit facility, a five-year $50.0 million term loan, a seven-year $50.0 million term loan and a five-year $100.0 million term loan to finance acquisitions and for working capital requirements with total outstanding borrowings of $200.0 million as of December 31, 2014. In addition, as of December 31, 2014, we had total mortgage loans payable of approximately $104.5 million. We have agreed to guarantee the obligations of the borrower (a wholly-owned subsidiary) under our credit facility. 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 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. Additional equity offerings may dilute the holdings of our existing stockholders and/or reduce the market price of our common stock 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.

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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 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; 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.

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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.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

As of December 31, 2014, we owned 126 buildings (including one building held for sale) aggregating approximately 9.3 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, 2014, our properties were approximately 93.7% leased to 299 customers, the largest of which accounted for approximately 5.3% of our total annualized base rent. We own several types of industrial real estate, including warehouse/distribution (approximately 88.8% of our total portfolio square footage as of December 31, 2014), flex (including light industrial and R&D) (approximately 9.4%) and trans-shipment (approximately 1.8%). 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, 2014:

Market	Number of Buildings	Rentable Square Feet	% of Total	Occupancy % as of December 31, 2014	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	18	1,568,571	17.0%	92.6%	$ 9,684	15.2%	$ 6.67	2.5	$ 169,325
Northern New Jersey/New York City	41	2,604,563	28.1%	85.9%	17,791	27.9%	7.95	3.6	267,041
San Francisco Bay Area	21	1,043,891	11.3%	99.6%	10,217	16.0%	9.83	5.5	135,738
Seattle	10	904,914	9.8%	95.9%	5,252	8.2%	6.05	3.7	80,299
Miami	18	1,333,243	14.4%	99.2%	8,904	14.0%	6.73	2.7	103,497
Washington, D.C./Baltimore[3]	18	1,796,484	19.4%	97.5%	11,928	18.7%	6.81	4.6	152,335
Total/Weighted Average	126	9,251,666	100.0%	93.7%	$ 63,776	100.0%	$ 7.35	3.7	$ 908,235

[1] Annualized base rent is calculated as monthly base rent per the leases, excluding any partial or full rent abatements, as of December 31, 2014, multiplied by 12.
[2] Weighted average remaining lease term is calculated by summing the remaining lease term of each lease as of December 31, 2014, weighted by the respective square footage.
[3] Includes 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.
[4] Includes 3.5 acres of improved land as discussed below.

We also own approximately 3.5 acres of improved land that is 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, 2014:

Market	Number of Parcels	Acres	% of Total	Occupancy % as of December 31, 2014	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%	$ 142	41.3%	$ 2.72	2.0
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	58.7%	2.02	1.4
Washington, D.C./Baltimore			0.0%			0.0%		
Total/Weighted Average	2	3.5	100.0%	100.0%	$ 344	100.0%	$ 2.26	1.6

[1] Annualized base rent is calculated as monthly base rent per the leases, excluding any partial or full rent abatements, as of December 31, 2014, multiplied by 12.
[2] Weighted average remaining lease term is calculated by summing the remaining lease term of each lease as of December 31, 2014, weighted by the respective square footage.

The following table summarizes our capital expenditures incurred during the three months and years ended December 31, 2014 and 2013 (dollars in thousands):

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2014	2013	2014	2013
Building improvements	$ 2,668	$ 1,578	$ 11,974	$ 5,441
Tenant improvements	1,038	509	4,450	1,904
Leasing commissions	1,503	950	4,157	2,633
Total capital expenditures[1]	$ 5,209	$ 3,037	$ 20,581	$ 9,978

1

Includes approximately $2.8 million and $2.4 million for the three months ended December, 2014 and 2013, respectively, and approximately $14.9 million and $5.7 million for the years ended December 31, 2014 and 2013, respectively, related to leasing acquired vacancy and renovation projects (stabilization capital) at 11 and 13 properties, respectively, for the three months and year ended December 31, 2014 and seven and nine properties, respectively, for the three months and year ended December 31, 2013.

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The following table summarizes the anticipated lease expirations for leases in place at December 31, 2014, without giving effect to the exercise of renewal options or termination rights, if any, at or prior to the scheduled expirations:

Year	Rentable Square Feet [1]	% of Total Rentable Square Feet	Annualized Base Rent (000 s) [1, 2]	% of Total Annualized Base Rent [1]
2015	1,599,042	17.3%	$ 9,362	13.4%
2016	847,145	9.1%	7,027	10.1%
2017	908,006	9.8%	8,770	12.6%
2018	1,033,348	11.2%	8,765	12.6%
2019	1,579,743	17.1%	11,920	17.1%
Thereafter	2,704,694	29.2%	23,793	34.2%
Total	8,671,978	93.7%	$ 69,637	100.0%

[1] Includes leases that expire on or after December 31, 2014 and month-to-month leases totaling 371,981 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, 2014, 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, 2014, leases representing approximately 17.3% of the total rentable square footage of our portfolio are scheduled to expire during the year ending December 31, 2015. In general, we continue to see improving demand for industrial space in our markets. We currently expect that on average, the rental rates we are likely to achieve on any new (re-leased) or renewed leases for our 2015 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 84.2% 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, 2014 are as follows:

	Tenant	Leases	Rentable Square Feet	% of Total Rentable Square Feet	Annualized Base Rent (000 s)[1]	% of Total Annualized Base Rent
1	FedEx Corporation	5	241,783	2.6%	$ 3,354	5.3%
2	Cepheid	3	171,707	1.9%	2,791	4.4%
3	Northrop Grumman Systems	2	199,866	2.2%	2,140	3.4%
4	H.D. Smith Wholesale Drug Company	1	211,418	2.3%	2,131	3.3%
5	HD Supply Company	2	223,741	2.4%	1,861	2.9%
6	Home Depot	1	413,092	4.4%	1,847	2.9%
7	United States Government	2	152,099	1.6%	1,707	2.7%
8	West Coast Warehouse	1	265,500	2.9%	1,370	2.1%
9	YRC Worldwide	2	61,252	0.7%	1,298	2.0%
10	Miami International Freight Solutions	1	192,454	2.1%	1,174	1.8%
11	Avborne Accessory Group	1	137,594	1.5%	1,048	1.6%
12	Ace World Class	1	161,610	1.7%	1,008	1.6%
13	Banah International Group[2]	1	301,983	3.3%	906	1.4%
14	New Breed Logistics, Inc.	2	123,035	1.3%	824	1.3%
15	Service West Inc.	1	129,279	1.4%	773	1.2%
16	Flying Food Group	1	69,500	0.7%	692	1.1%
17	JAM N Logistics	1	110,336	1.2%	690	1.1%
18	International Paper Company	1	137,872	1.5%	673	1.1%
19	Maines Paper & Food Service	1	98,745	1.1%	658	1.0%
20	United Parcel Service	4	79,712	0.8%	625	1.0%
	Total	34	3,482,578	37.6%	$ 27,570	43.2%

1 Annualized base rent is calculated as monthly base rent per the leases, excluding any partial or full rent abatements, as of December 31, 2014, multiplied by 12.

2 Represents a month-to-month lease related to the tenant default described under the heading 2014 Developments Tenant Default under Management s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K. The tenant vacated the space during January 2015 and we regained possession.

As of December 31, 2014, 15 of our 73 properties with a net investment book value of approximately $213.4 million were encumbered by mortgage loans payable totaling approximately $104.5 million, which bear interest at a weighted average fixed annual rate of 4.51%.

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.

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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:

Year	High	Low	Dividend
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
2013			
First Quarter	$ 18.03	$ 15.59	$ 0.12
Second Quarter	20.20	17.78	0.13
Third Quarter	19.21	17.00	0.13
Fourth Quarter	18.63	16.71	0.13

As of January 26, 2015, there were approximately 4,263 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;

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) beginning in fiscal 2012. 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, 2014 and 2013:

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

For the Three Months Ended	**Security**		**Dividend per Share**	**Declaration Date**	**Record Date**	**Date Paid**
March 31, 2013	Common stock	$	0.120000	February 19, 2013	April 5, 2013	April 19, 2013
March 31, 2013	Preferred stock	$	0.484375	February 19, 2013	March 11, 2013	March 31, 2013
June 30, 2013	Common stock	$	0.130000	May 7, 2013	July 5, 2013	July 19, 2013
June 30, 2013	Preferred stock	$	0.484375	May 7, 2013	June 11, 2013	July 1, 2013
September 30, 2013	Common stock	$	0.130000	August 6, 2013	October 7, 2013	October 21, 2013
September 30, 2013	Preferred stock	$	0.484375	August 6, 2013	September 11, 2013	September 30, 2013
December 31, 2013	Common stock	$	0.130000	November 5, 2013	December 31, 2013	January 14, 2014
December 31, 2013	Preferred stock	$	0.484375	November 5, 2013	December 11, 2013	December 31, 2013

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Issuer Purchases of Equity Securities

Period	(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, 2014 - October 31, 2014		$	N/A	N/A
November 1, 2014 - November 30, 2014	326 [1]	21.26	N/A	N/A
December 1, 2014 - December 31, 2014			N/A	N/A
	326	$ 21.26	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 February 10, 2010 (the first day our stock began trading on the NYSE) to December 31, 2014 with the cumulative total return of the Standard and Poor s 500 Stock Index, the MSCI U.S. REIT Index 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 February 10, 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 December 31, 2014, 2013, 2012, 2011 and 2010, for the years ended December 31, 2014, 2013, 2012 and 2011 and the period from February 16, 2010 (commencement of operations) to December 31, 2010 and 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,				Period from February 16, 2010 (Commencement of Operations) to
	2014	2013	2012	2011	December 31, 2010
Operating Data					
Total revenues	$ 68,875	$ 45,529	$ 29,335	$ 14,182	$ 3,105
Total costs and expenses	51,567	36,973	25,931	17,375	8,629
Income (loss) from continuing operations	10,718	2,451	(2,031)	(5,807)	(5,984)
Income from discontinued operations		1,412	2,059	2,078	594
Gain on sales of real estate investments		2,778	4,037		
Net income (loss) available to common stockholders, net of preferred stock dividends	7,126	3,056	2,437	(3,729)	(5,390)
Earnings per Common Share - Basic and Diluted:					
Income (loss) from continuing operations available to common stockholders, net of preferred stock dividends	$ 0.23	$ (0.05)	$ (0.28)	$ (0.64)	$ (0.63)
Income from discontinued operations		0.20	0.47	0.23	0.04
Net income (loss) available to common stockholders, net of preferred stock dividends	$ 0.23	$ 0.15	$ 0.19	$ (0.41)	$ (0.59)
Dividends declared per common share	$ 0.57	$ 0.51	$ 0.46	$ 0.40	$
Dividends declared per preferred share	1.94	1.94	0.87		
Basic and Diluted Weighted Average Common Shares Outstanding	30,433,017	21,011,276	13,135,440	9,161,805	9,112,000
Other Data					
Funds from operations [1]	$ 26,097	$ 12,689	$ 7,435	$ 1,056	$ (4,209)
Basic and diluted FFO per common share [1]	0.86	0.60	0.57	0.12	(0.46)
Cash flows provided by (used in):					
Operating activities	$ 29,321	$ 13,495	$ 9,749	$ 2,149	$ (2,019)
Investing activities	(249,916)	(201,865)	(160,180)	(105,884)	(116,581)
Financing activities	404,207	189,429	153,112	49,731	175,852
Balance Sheet Data					
Investments in real estate at cost [2]	$ 901,273	$ 651,839	$ 445,348	$ 264,584	$ 136,363
Total assets	1,076,766	645,324	445,318	267,049	194,382
Total debt	304,501	189,313	177,044	99,315	17,676
Total stockholders equity	747,036	438,835	255,274	159,011	165,499

[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, 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 $6.9 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 88.8% of our total portfolio square footage as of December 31, 2014), flex (including light industrial and R&D) (approximately 9.4%) and trans-shipment (approximately 1.8%). 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, 2014, we owned 126 buildings (including one building held for sale) aggregating approximately 9.3 million square feet and two improved land parcels consisting of 3.5 acres, which we purchased for an aggregate purchase price of approximately $851.5 million, including the assumption of mortgage loans payable of approximately $63.9 million, which includes mortgage premiums of approximately $1.9 million. As of December 31, 2014, our properties were approximately 93.7% leased to 299 customers, the largest of which accounted for approximately 5.3% 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 invest 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 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 or portfolios of properties. 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, 2014, we acquired 37 unstabilized properties of which 24 have been stabilized.

We may 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 will be reinvested into properties that are expected to provide better prospective returns or returned to shareholders. We have disposed of two properties since inception for a cumulative sales price of approximately $36.0 million and a total gain of approximately $6.8 million.

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2014 Developments

Acquisition Activity

During the year ended December 31, 2014, we acquired 29 industrial buildings containing 2,266,082 square feet and one improved land parcel consisting of 1.2 acres for a total purchase price of approximately $235.7 million. The properties were acquired from unrelated third parties using existing cash on hand, net of assumed mortgage loans payable of approximately $8.5 million with a weighted average interest rate of approximately 5.74% and borrowings under our credit facility. The following table sets forth the industrial buildings we acquired during the year ended December 31, 2014:

Property Name	Location	Acquisition Date	Number of Buildings	Square Feet	Purchase Price (in thousands) [1]	Stabilized Cap Rate [2]
SW 34th Street	Renton, WA	February 11, 2014	1	62,004	$ 6,600	7.1%
Parkway	Hanover, MD	March 26, 2014	1	158,769	18,000	7.1%
Pulaski	Bayonne, NJ	March 31, 2014	1	98,049	9,200	5.9%
747 Glasgow	Inglewood, CA	April 22, 2014	1	19,326	3,450	4.8%
Hampton	Capitol Heights, MD	May 13, 2014	1	138,780	18,050	6.4%
Burroughs	San Leandro, CA	May 14, 2014	3	129,279	13,328	5.3%
California	Corona, CA	June 5, 2014	1	89,819	7,815	5.1%
Las Hermanas [3]	Compton, CA	June 12, 2014	1	23,735	4,020	5.1%
South Main II	Carson, CA	July 18, 2014	1	33,769	8,500	6.0%
79th Ave South	Kent, WA	July 25, 2014	1	35,018	2,770	6.6%
Auburn 1307	Auburn, WA	August 22, 2014	1	91,607	9,530	5.6%
3401 Lind	Renton, WA	October 3, 2014	1	113,170	9,975	5.5%
900 Hart	Rahway, NJ	October 8, 2014	1	84,000	7,205	6.1%
Kent 216th	Kent, WA	October 24, 2014	1	106,910	9,214	5.6%
9020 Junction	Annapolis Junction, MD	November 17, 2014	1	96,666	13,800	7.6%
11300 NW 131st	Medley, FL	November 19, 2014	1	85,000	8,925	5.5%
Terminal Way	Avenel, NJ	November 25, 2014	2	80,200	7,445	5.7%
14605 Miller	Fontana, CA	December 2, 2014	1	265,500	22,899	5.4%
Park Union City	Union City, CA	December 10, 2014	3	170,129	23,800	5.7%
75th Ave	Landover, MD	December 17, 2014	5	384,352	31,215	6.2%
Total			29	2,266,082	$ 235,741	6.0%

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

3 Includes an improved land parcel consisting of 1.2 acres that is separately leased for trailer storage.

Public Follow-on Offerings

On December 9, 2014, we completed a public follow-on offering of 9,775,000 shares of our common stock at a price per share of $19.60. The net proceeds of the follow-on offering were approximately $183.0 million after deducting the underwriting discount and offering costs of approximately $8.6 million. We intend to use of the net proceeds to acquire industrial properties and for general corporate purposes.

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On May 22, 2014, we completed a public follow-on offering of 8,050,000 shares of our common stock at a price per share of $17.75. The net proceeds of the follow-on offering were approximately $136.5 million after deducting the underwriting discount and offering costs of approximately $6.4 million. We used approximately $100.0 million of the net proceeds to repay outstanding borrowings under our revolving credit facility and the remaining net proceeds to acquire industrial properties and for general business purposes.

Establishment of ATM Program

On February 28, 2014, we established 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 $100,000,000 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. We intend 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 our credit facility. During the three months and year ended December 31, 2014, we did not issue any shares of common stock under the ATM Program.

Amendments to Credit Facility and New Term Loans

On May 8, 2014, we entered into a Third Amended and Restated Senior Credit Agreement (the Facility) with KeyBank National Association, as administrative agent and as a lender, KeyBanc Capital Markets, as a lead arranger and PNC Bank, National Association, Union Bank, N.A. and Regions Bank as lenders (collectively the Lenders) to, among other matters, add a seven-year $50.0 million term loan to the existing $150.0 million facility, which included a $100.0 million revolving credit facility and a five-year $50.0 million term loan. The seven-year $50.0 million term loan maturity date under the Facility is May 2021. The five-year $50.0 million term loan maturity date under the Facility was extended to May 2019 (previously January 2018) and the maturity date of the revolving credit facility was extended to May 2018 (previously January 2016) with one 12-month extension option exercisable by us, subject, among other things, to there being an absence of an event of default under the Facility and to the payment of an extension fee.

On December 8, 2014 we entered into a first amendment to the Facility (the Amended Facility) with KeyBank National Association, as administrative agent and as a lender, and PNC Bank, National Association, MUFG Union Bank, N.A., Regions Bank and Goldman Sachs Bank USA as lenders to add a five-year $100.0 million term loan to our existing $200.0 million credit facility. The five-year $100.0 million term loan matures in March 2020.

The aggregate amount of the Amended 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 Amended Facility are limited to the lesser of (i) the sum of our $100.0 million revolving credit facility, our $50.0 million five-year term loan, our $50.0 million seven-year term loan and our $100.0 million five-year term loan or (ii) 60.0% of the value of the unencumbered properties. Interest on the Amended Facility, including the five-year and seven-year 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 Amended Facility plus 1.25%. The applicable LIBOR margin will range from 1.50% to 2.05% (1.50% at December 31, 2014) for the revolving credit facility and each of the five-year term loans and 1.75% to 2.30% (1.75% at December 31, 2014) for the seven-year term loan, depending on the ratio of our outstanding consolidated indebtedness to the value of our consolidated gross asset value.

The Amended 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 Amended Facility. The Amended Facility is guaranteed by us and by substantially all of the current and to-be-formed subsidiaries of the borrower that own an

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unencumbered property. The Amended Facility has been modified to be unsecured by our properties or by interests in the subsidiaries that hold such properties. The Amended Facility includes a series of financial and other covenants that we must comply with in order to borrow under the Amended Facility. As of December 31, 2014, there were no borrowings outstanding on the revolving credit facility and $200.0 million of borrowings outstanding on the term loans. As of December 31, 2013, there were $31.0 million of borrowings outstanding on the revolving credit facility and $50.0 million of borrowings outstanding on a five-year term loan. We were in compliance with the covenants under the Amended Facility at December 31, 2014 and 2013.

Tenant Default

On January 29, 2013, we filed a one count eviction action against Banah International Group, Inc. (Banah), our tenant at 215 10th Avenue in Hialeah, FL, for failure to pay December 2012 and January 2013 rent. On February 21, 2013, the state court entered a default judgment for possession against Banah. Later that same day, Banah filed a Chapter 11 bankruptcy petition and subsequently extended the deadline to affirm or reject the lease while working on a plan of reorganization. Banah made all payments in accordance with the lease for the period from February 21, 2013 through October 31, 2014 and a partial payment for November 2014 during the bankruptcy. The lease was recorded as month-to-month and revenue was recognized as cash was received. On December 18, 2013, Banah filed its proposed plan for reorganization which called for a successor entity (the Successor Entity) to assume the lease, pending plan confirmation by the Bankruptcy Court. On September 9, 2014, following the failure of the Successor Entity to fulfill its obligations, the Bankruptcy Court vacated the plan and engaged a court appointed trustee to oversee the operations of Banah. On September 24, 2014, the Court approved an emergency motion by the trustee to convert the bankruptcy to Chapter 7. As a result, Banah vacated the space and we regained possession during January 2015.

Dividend and Distribution Activity

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

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

Recent Developments

Acquisition Activity

Subsequent to December 31, 2014, we acquired seven industrial buildings containing 927,017 square feet for a total purchase price of approximately $125.4 million. The properties were acquired from unrelated third parties using cash on hand. The following table sets forth the wholly-owned industrial properties we acquired subsequent to December 31, 2014:

Property Name	Location	Acquisition Date	Number of Buildings	Square Feet	Purchase Price (in thousands)	Stabilized Cap Rate
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%
Total			7	927,017	$ 125,375	5.8%

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Contractual Commitments

As of February 11, 2015 we have five outstanding contracts with third-party sellers to acquire five industrial properties, one non-binding letter of intent with a third-party seller to acquire one industrial property and one outstanding contract with a third-party purchaser to sell one property 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 disposition are subject to the completion of satisfactory due diligence, various closing conditions and with respect to one of the properties, the consent of the mortgage lender, and, in addition, with respect to the property under non-binding letter of intent, our entry into a purchase and sale agreement.

Outlook

We believe that industrial rents have stopped falling in our markets and in most cases are rising and will continue to rise in 2015. However, new speculative development has begun in a growing number of markets. This new development is likely to slow potential rent growth from what it would be without such new development. We see a growing set of acquisition opportunities and seek to increase our total acquisitions in 2015 over 2014. Over the intermediate term of the next four to five years, we seek to grow our portfolio to approximately $3.0 billion of assets to optimize our operating efficiency, increase our shareholder liquidity and position us to achieve an investment grade credit rating to broaden our access to capital. We remain mindful, however, that it is per share, rather than aggregate, results that matter. We believe in the long-term operating prospects of our functional, infill coastal assets. We believe in sound balance sheet management. We believe in the benefits of our market-leading corporate governance and exceptionally aligned executive management compensation.

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 64.5% 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 84.2% of our leased space includes fixed rental increases or Consumer Price Index-based rental increases. Lease terms typically range from three to ten years.

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 Amended Facility.

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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, 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 or held for sale to a third party. As of December 31, 2014, the same store pool consisted of 65 buildings aggregating approximately 4.8 million square feet. As of December 31, 2014, the non-same store properties, which we acquired or disposed of during the course of 2013 and 2014, consisted of 61 buildings aggregating approximately 4.5 million square feet. As of December 31, 2014, the consolidated same store pool occupancy was approximately 97.1% compared to approximately 96.3% as of December 31, 2013.

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, 2014 to the Year Ended December 31, 2013:

	For the Year Ended December 31, 2014	2013	$ Change	% Change
	(Dollars in thousands)			
Rental revenues				
Same store	$ 32,550	$ 30,942	$ 1,608	5.2%
2013 and 2014 Acquisitions	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%
2013 and 2014 Acquisitions	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%
2013 and 2014 Acquisitions	7,799	1,753	6,046	344.9%
Total property operating expenses	19,161	12,771	6,390	50.0%
Net operating income [1]				
Same store	30,551	28,641	1,910	6.7%
2013 and 2014 Acquisitions	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%
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%

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[1] 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 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 same period from 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 same period from 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 same period from 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 and offset by a decrease in the accrued performance share awards of approximately $0.3 million as compared to the prior year period.

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 same period from 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 Amended Facility, net of capitalized interest.

The analysis of our results below for the years ended December 31, 2013 and 2012 includes the changes attributable to same store properties. The same store pool for the comparison of the 2013 and 2012 fiscal years includes all properties that were owned and in operation as of December 31, 2013 and since January 1, 2012 and excludes properties that were either disposed of or held for sale to a third party. As of December 31, 2013, the same store pool consisted of 44 buildings aggregating approximately 3.1 million square feet. As of December 31, 2013, the non-same store properties, which we acquired or disposed of during the course of 2012 and 2013, consisted of 52 buildings aggregating approximately 3.7 million square feet. As of December 31, 2013, the consolidated same store pool occupancy was approximately 96.8% compared to approximately 95.3% as of December 31, 2012.

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Comparison of the Year Ended December 31, 2013 to the Year Ended December 31, 2012:

	For the Year Ended December 31, 2013	2012	$ Change	% Change
	(Dollars in thousands)			
Rental revenues				
Same store	$ 18,779	$ 17,889	$ 890	5.0%
2012 and 2013 Acquisitions	17,092	5,168	11,924	230.7%
Total rental revenues	35,871	23,057	12,814	55.6%
Tenant expense reimbursements				
Same store	5,630	5,012	618	12.3%
2012 and 2013 Acquisitions	4,028	1,266	2,762	218.2%
Total tenant expense reimbursements	9,658	6,278	3,380	53.8%
Total revenues	45,529	29,335	16,194	55.2%
Property operating expenses				
Same store	7,163	6,965	198	2.8%
2012 and 2013 Acquisitions	5,608	1,597	4,011	251.2%
Total property operating expenses	12,771	8,562	4,209	49.2%
Net operating income [1]				
Same store	17,246	15,936	1,310	8.2%
2012 and 2013 Acquisitions	15,512	4,837	10,675	220.7%
Total net operating income	$ 32,758	$ 20,773	$ 11,985	57.7%
Other costs and expenses				
Depreciation and amortization	12,481	8,728	3,753	43.0%
General and administrative	8,423	6,403	2,020	31.5%
Acquisition costs	3,298	2,238	1,060	47.4%
Total other costs and expenses	24,202	17,369	6,833	39.3%
Other income (expense)				
Interest and other income	109	37	72	194.6%
Interest expense, including amortization	(6,214)	(5,472)	(742)	13.6%
Total other income and expenses	(6,105)	(5,435)	(670)	12.3%
Income from discontinued operations	4,190	6,096	(1,906)	(31.3)%
Net income	$ 6,641	$ 4,065	$ 2,576	63.4%

[1] 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 $16.2 million for the year ended December 31, 2013 compared to the prior year due primarily to property acquisitions during 2012 and 2013. The increase in same store revenues in 2013 is primarily due to the 2012 write-off of $1.1 million related to the tenant default as described under the heading 2014 Developments Tenant Default. For the quarter and year ended December 31, 2013, approximately $0.4 million and $2.4 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 $4.2 million during the year ended December 31, 2013 compared to the same period from the prior year. The increase in total property operating expenses was due to an increase of approximately $4.0 million attributable to property acquisitions during 2012 and 2013 and an increase in same store operating expenses of approximately $0.2 million compared to the same period from the prior year due to non-reimbursable legal *expenses related to the tenant default described under the heading 2014 Developments Tenant Default and an increase in real estate tax expense.*

Depreciation and amortization. Depreciation and amortization increased approximately $3.8 million during the year ended December 31, 2013 compared to the same period from the prior year due to property acquisitions during 2012 and 2013.

General and administrative expenses. General and administrative expenses increased approximately $2.0 million for the year ended December 31, 2013 compared to the same period from the prior year due primarily to an increase in the accrued performance share awards of approximately $0.6 million and increased compensation expense and professional fees as compared to the prior year.

Acquisition costs. Acquisition costs increased by approximately $1.1 million for the year ended December 31, 2013 from the prior year due to a higher volume of property acquisitions during the year ended December 31, 2013 as compared to the prior year.

Interest and other income. Interest and other income increased approximately $0.1 million for the year ended December 31, 2013 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 $0.7 million for the year ended December 31, 2013 compared to the prior year due primarily to the assumption and origination of mortgage loans payable during 2013 and 2013, as well as borrowings under our Amended Facility.

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;
- 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 obtain an investment grade rating and be in a position to issue unsecured debt and additional perpetual preferred stock. Prior to attaining an investment grade rating, we intend to primarily utilize credit facilities, recourse bank term loans or non-recourse debt secured by individual properties or pools of properties with a targeted maximum loan-to-value of 65% at the time of financing, 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 Amended 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, mortgages, borrowings under our Amended Facility, perpetual preferred and common stock issuance 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 Amended 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.

On January 13, 2012, we completed a public follow-on offering of 4,000,000 shares of our common stock, including 93,000 shares purchased by our senior management and directors, at a price per share of $14.25. On February 13, 2012, we sold an additional 61,853 shares of our common stock at a price per share of $14.25 upon the exercise by the underwriters of their option to purchase additional shares. The net proceeds of the offering, after deducting the underwriting discount and estimated offering costs, were approximately $54.7 million. We used approximately $41.0 million of the net proceeds to repay outstanding borrowings under our credit facility on January 13, 2012 and the remaining net proceeds were used to invest in industrial properties and for general business purposes.

On July 19, 2012, we completed a public offering of 1,840,000 shares of our Series A Preferred Stock, including 240,000 shares sold upon the exercise by the underwriters of their option to purchase additional shares, at a price per share of $25.00. The net proceeds of the offering were approximately $44.3 million after deducting the underwriting discount and other offering expenses of approximately $1.7 million. We used the net proceeds to reduce outstanding borrowings under our Amended Facility. 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.

On February 19, 2013, we completed a public follow-on offering of 5,750,000 shares of our common stock at a price per share of $16.60, including 90,325 shares that were sold in the offering to our executive and senior officers and members of our board of directors. No underwriting discount or commission was paid on the shares sold to such officers and directors. The net proceeds of the offering, after deducting the underwriting discount and offering costs, were approximately $90.8 million. We used approximately $65.4 million of the net proceeds to repay outstanding borrowings under our revolving credit facility and the remaining net proceeds to invest in industrial properties and for general business purposes.

On July 11, 2013, we completed a public follow-on offering of 5,750,000 shares of our common stock at a price per share of $18.25, including 43,250 shares that were sold in the offering to our executive and senior officers and members of our board of directors. No underwriting discount or commission was paid on the shares sold to such officers and directors. The net proceeds of the offering were approximately $99.9 million after deducting the underwriting discount and offering costs of approximately $5.0 million. We used approximately $6.5 million of the net proceeds to repay outstanding borrowings under our revolving credit facility and the remaining net proceeds to acquire industrial properties and for general business purposes.

On February 28, 2014, we established an ATM Program pursuant to which we may issue and sell shares of our common stock having an aggregate offering price of up to $100,000,000 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. We intend 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 our Amended Facility. During the year ended December 31, 2014, we did not issue any shares of common stock under the ATM Program.

On May 22, 2014, we completed a public follow-on offering of 8,050,000 shares of our common stock at a price per share of $17.75. The net proceeds of the follow-on offering were approximately $136.5 million after deducting the underwriting discount and offering costs of approximately $6.4 million. We used approximately $100.0 million of the net proceeds to repay outstanding borrowings under our revolving credit facility and the remaining net proceeds to acquire industrial properties and for general business purposes.

On December 9, 2014, we completed a public follow-on offering of 9,775,000 shares of our common stock at a price per share of $19.60. The net proceeds of the follow-on offering were approximately $183.0 million after deducting the underwriting discount and offering costs of approximately $8.6 million. We intend to use the net proceeds to acquire industrial properties and for general corporate purposes.

On May 8, 2014, we entered into a Third Amended and Restated Senior Credit Agreement (the Facility) with KeyBank National Association, as administrative agent and as a lender, KeyBanc Capital Markets, as a lead arranger and PNC Bank, National Association, Union Bank, N.A. and Regions Bank as lenders (collectively the Lenders) to, among other matters, add a seven-year $50.0 million term loan to the existing $150.0 million facility, which included a $100.0 million revolving credit facility and a five-year $50.0 million term loan. The seven-year $50.0 million term loan maturity date under the Facility is May 2021. The five-year $50.0 million term loan maturity date under the Facility was extended to May 2019 (previously January 2018) and the maturity date of the revolving credit facility was extended to May 2018 (previously January 2016) with one 12-month extension option exercisable by us, subject, among other things, to there being an absence of an event of default under the Facility and to the payment of an extension fee.

On December 8, 2014 we entered into a first amendment to the Facility (the Amended Facility) with KeyBank National Association, as administrative agent and as a lender, and PNC Bank, National Association, MUFG Union Bank, N.A., Regions Bank and Goldman Sachs Bank USA as lenders to add a five-year $100.0 million term loan to our existing $200.0 million credit facility. The five-year $100.0 million term loan matures in March 2020.

The aggregate amount of the Amended 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 Amended Facility are limited to the lesser of (i) the sum of our $100.0 million revolving credit facility, our $50.0 million five-year term loan, our $50.0 million seven-year term loan and our $100.0 million five-year term loan or (ii) 60.0% of the value of the unencumbered properties. Interest on the Amended Facility, including the five-year and seven-year 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 Amended Facility plus 1.25%. The applicable LIBOR margin will range from 1.50% to 2.05% (1.50% at December 31, 2014) for the revolving credit facility and each of the five-year term loans and 1.75% to 2.30% (1.75% at December 31, 2014) for the seven-year term loan, depending on the ratio of our outstanding consolidated indebtedness to the value of our consolidated gross asset value.

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The Amended 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 Amended Facility. The Amended Facility is guaranteed by us and by substantially all of the current and to-be-formed subsidiaries of the borrower that own an unencumbered property. The Amended Facility has been modified to be unsecured by our properties or by interests in the subsidiaries that hold such properties. The Amended Facility includes a series of financial and other covenants that we must comply with in order to borrow under the Amended Facility. As of December 31, 2014, there were no borrowings outstanding on the revolving credit facility and $200.0 million of borrowings outstanding on the term loans. As of December 31, 2013, there were $31.0 million of borrowings outstanding on the revolving credit facility and $50.0 million of borrowings outstanding on a five-year term loan. We were in compliance with the covenants under the Amended Facility at December 31, 2014 and 2013.

As of December 31, 2014 and 2013, we had outstanding mortgage loans payable of approximately $104.5 million and $108.3 million, respectively, and held cash and cash equivalents totaling approximately $190.6 million and $7.0 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, 2014 (dollars in thousands):

	Credit Facility	Term Loans	Mortgage Loans Payable	Total Debt
2015	$	$	$ 24,788	$ 24,788
2016			12,130	12,130
2017			1,916	1,916
2018			1,910	1,910
2019		50,000	18,806	68,806
Thereafter		150,000	44,348	194,348
Subtotal		200,000	103,898	303,898
Unamortized net premiums			603	603
Total Debt	$	$ 200,000	$ 104,501	$ 304,501
Weighted Average Interest Rate	n/a	1.7%	4.5%	2.7%

	Shares Outstanding [1]	Market Price [2]	Market Value
Common Stock	42,869,463	$ 20.63	