Terreno Realty Corp
Form 10-K
February 07, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2017

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 Incorporation or Organization)	**(I.R.S. Employer 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

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

None

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

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price, as reported by the New York Stock Exchange, at which the common equity was last sold, as of June 30, 2017, the last business day of the Registrant s most recently completed second fiscal quarter: $1,714,958,319. (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 55,469,263 shares of its common stock, $0.01 par value per share, outstanding as of February 7, 2018.

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 2018 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 2017 fiscal year pursuant to Regulation 14A.

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Terreno Realty Corporation

Annual Report on Form 10-K

for the Year Ended December 31, 2017

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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 , outlook , and similar not relate solely to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors, that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

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

- the factors included in this Annual Report on Form 10-K, including those set forth under the headings Risk Factors , and Management s Discussion and Analysis of Financial Condition and Results of Operations ;
- our ability to identify and acquire industrial properties on terms favorable to us;
- general volatility of the capital markets and the market price of our common stock;
- adverse economic or real estate conditions or developments in the industrial real estate sector and/or in the markets in which we acquire properties;
- our dependence on key personnel and our reliance on third-party property managers;
- our inability to comply with the laws, rules and regulations applicable to companies, and in particular, public companies;
- our ability to manage our growth effectively;

tenant bankruptcies and defaults on or non-renewal of leases by tenants;

decreased rental rates or increased vacancy rates;

increased interest rates and operating costs;

declining real estate valuations and impairment charges;

our expected leverage, our failure to obtain necessary outside financing, and future debt service obligations;

our ability to make distributions to our stockholders;

our failure to successfully hedge against interest rate increases;

our failure to successfully operate acquired properties;

risks relating to our real estate redevelopment and expansion strategies and activities;

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

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uninsured or underinsured losses and costs relating to our properties or that otherwise result from future litigation;

environmental uncertainties and risks related to natural disasters;

financial market fluctuations; and

changes in real estate and zoning laws and increases in real property tax rates.

PART I

Item 1. Business.

Overview

Terreno Realty Corporation (Terreno , and together with its subsidiaries, we , us , our , our Company or the Com acquires, owns and operates industrial real estate in six major coastal U.S. markets: Los Angeles, Northern New Jersey/New York City, San Francisco Bay Area, Seattle, Miami, and Washington, D.C. We invest in several types of industrial real estate, including warehouse/distribution (approximately 93.5% of our total portfolio square footage as of December 31, 2017), flex (including light industrial and research and development, or R&D) (approximately 5.1%) and transshipment (approximately 1.4%). 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, 2017, we owned 196 buildings aggregating approximately 13.0 million square feet and ten improved land parcels consisting of 47.9 acres, which we purchased for an aggregate purchase price of approximately $1.5 billion. As of December 31, 2017, our properties were approximately 97.3% leased to 426 customers, the largest of which accounted for approximately 5.1% 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 Internal Revenue Code of 1986, as amended, or the Code, commencing with our taxable year ended December 31, 2010.

Our Investment Strategy

We acquire, own and operate 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.

As described in more detail below, we invest in several types of industrial real estate, including warehouse/distribution, flex (including light industrial and R&D) and transshipment. 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 93.5% of our total portfolio square footage as of December 31, 2017)

Single and multiple tenant facilities that typically serve tenants greater than 10,000 square feet of space

Generally less than 20% office space

Typical clear height from 18 feet to 36 feet

May include production/manufacturing areas

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Interior access via dock high and/or grade level doors

Truck court for large and small truck distribution options, possibly including staging for a high volume of truck activity and/or trailer storage

Flex (including light industrial and R&D, approximately 5.1% of our total portfolio square footage as of December 31, 2017)

Single and multiple tenant facilities that typically serve tenants less than 10,000 square feet of space

Facilities generally accommodate both office and warehouse/manufacturing activities

Typically has a larger amount of office space and shallower bay depths than warehouse/distribution facilities

Parking consistent with increased office use

Interior access via grade level and/or dock high doors

Staging for moderate truck activity

May include a showroom, service center, or assembly/light manufacturing component

Enhanced landscaping

Transshipment (approximately 1.4% of our total portfolio square footage as of December 31, 2017)

Includes truck terminals and other transshipment 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, e-commerce, 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 may directly manage properties in the future if we determine such direct property management is in our best interest.

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We have no current intention to acquire undeveloped or unimproved industrial land or to pursue greenfield ground-up development. However, we may pursue redevelopment and expansion opportunities of properties that we own, acquire properties and improved land parcels with the intent to redevelop in the near-term, or acquire adjacent land to expand our existing facilities.

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

The properties we acquire may be stabilized (fully leased) or unstabilized (have near term lease expirations or be partially or fully vacant). During the period from February 16, 2010 to December 31, 2017, we have stabilized 58 properties.

We sell properties from time to time when we believe the prospective total return from a property is particularly low relative to its market value or the market value of the property is significantly greater than its estimated replacement cost. Capital from such sales is reinvested into properties that are expected to provide better prospective returns or returned to shareholders. We have disposed of eleven properties since inception for a cumulative sales price of approximately $160.4 million and a total gain of approximately $55.1 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, e-commerce, potential long term increases in carbon prices and other factors. We have no current intention to acquire undeveloped or unimproved land or pursue greenfield ground-up development, but we may pursue redevelopment and expansion activities.

Highly Aligned Compensation Structure. We believe that executive compensation should be closely aligned with long-term stockholder value creation. As a result, all of the long-term equity incentive compensation of our executive officers is based solely on our total shareholder return exceeding the total shareholder return of the MSCI U.S. REIT Index (RMS) or the FTSE NAREIT Equity Industrial Index.

Commitment to Strong Corporate Governance. We are committed to strong corporate governance, as demonstrated by the following:

- all members of our board of directors serve annual terms;
- we have adopted a majority voting standard in non-contested director elections;
- we have opted out of three Maryland anti-takeover provisions and, in the future, we may not opt back in to these provisions without stockholder approval;
- we designed our ownership limits solely to protect our status as a REIT and not for the purpose of serving as an anti-takeover device; and

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

Our Financing Strategy

The primary objective of our financing strategy is to maintain financial flexibility with a conservative capital structure using retained cash flows, proceeds from dispositions of properties, 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 35% of our total enterprise value;

maintain a fixed charge coverage ratio in excess of 2.0x;

maintain a debt-to-adjusted EBITDA ratio below 6.0x;

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 maintain our investment grade rating and be in a position to issue additional unsecured debt and additional perpetual preferred stock. Fitch Ratings assigned us an issuer rating of BBB- with a stable outlook. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. There can be no assurance that we will be able to maintain our current credit rating. Our credit rating can affect the amount and type of capital we can access, as well as the terms of any financings we may obtain. In the event our current credit rating is downgraded, it may become difficult or expensive to obtain additional financing or refinance existing obligations and commitments. We intend to primarily utilize senior unsecured notes, term loans, credit facilities, dispositions of properties, common stock 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. Securities and Exchange Commission, or SEC, reporting obligations since 2010. We are not structured as an Umbrella Partnership Real Estate Investment Trust, or UPREIT, although we could put in place a similar structure to facilitate an acquisition if needed. We currently own our properties indirectly through subsidiaries and may utilize one or more taxable REIT subsidiaries as appropriate.

Our Tax Status

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

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

Competition

We believe the current market for industrial real estate acquisitions to be competitive. We compete for real property investments with pension funds and their advisors, bank and insurance company investment accounts, other public and private real estate investment companies, including other REITs, real estate limited partnerships, owner-users, individuals and other entities engaged in real estate investment activities, some of which have greater financial resources than we do. 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, 2017 and 2016.

Employees

As of February 7, 2018, we have 22 employees. None of our employees is a member of any union.

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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 any material updates to these risk factors.

Risks Related to Our Business and Our Properties

Our long-term growth will depend, in part, 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 greater financial resources than we do and a greater ability to borrow funds to acquire properties. This competition increases as investments in real estate become increasingly attractive relative to other forms of investment. As a result of competition, we may be unable to acquire properties as we desire or the purchase price may be significantly elevated.

In addition, we expect to finance future acquisitions through a combination of borrowings under our revolving credit facility, term loans, unsecured debt, debt secured by individual properties or pools of properties, the use of retained

cash flows and the issuance of a combination of long-term debt and common and perpetual preferred stock, which may not be available at all or on advantageous terms and which could adversely affect our cash flows. Any of the above risks could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock and our preferred stock.

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

We may be required to incur debt and expenditures and issue additional shares of our common stock or issue shares of preferred stock to pay for industrial properties that we may acquire, which may dilute our

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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, for which our insurance may be insufficient or for which we may be unable to secure insurance coverage;
- the possibility that a concentration of our industrial properties in Los Angeles, the San Francisco Bay Area and Seattle may increase our exposure to seismic activity, especially if these industrial properties are located on or near fault zones; and
- the possibility that we may not meet our estimated forecasts related to stabilized cap rates.

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

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

If adverse conditions in the credit markets in particular with respect to real estate materially deteriorate, our business could be materially and adversely affected. Our long-term ability to grow through investments in industrial properties, including our ability to realize our projections for growth, will be limited if we cannot obtain additional financing on favorable terms or at all. In the future, we will rely on equity and debt financing, including issuances of common and perpetual preferred stock, borrowings under our revolving credit facility, term loans, issuances of unsecured debt securities and debt secured by individual properties or pools of properties, to finance our acquisition, redevelopment and expansion 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.

The availability and timing of cash distributions is uncertain.

We have made regular quarterly cash distributions (which we also refer to as dividends, in this Annual Report on Form 10-K and in the other documents we file with the SEC) to our stockholders, and we intend to continue to pay regular quarterly cash 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

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

We depend on key personnel.

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

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

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

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

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

In addition to general, regional, national and international economic conditions that may materially adversely affect our business and financial results, our operating performance will be materially adversely impacted by adverse economic conditions in the specific markets in which we operate and particularly in the markets in which we have significant concentrations of properties. For example, as of December 31, 2017, approximately 24.3% of our rentable square feet was located in Northern New Jersey/New York City, representing approximately 25.6% of our total annualized base rent, and approximately 20.3% of our rentable square feet was located in Los Angeles, representing approximately 18.5% of our total annualized base rent. See Item 2 Properties in this Annual Report on Form 10-K for additional information regarding our ownership of properties in our markets. Any downturn in the economy in the real estate market or any of our markets and any failure to accurately predict the timing of any economic improvement in these markets could cause our operations and our revenue and cash available for distribution, including cash available to pay distributions to our stockholders, to be materially adversely affected.

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

We cannot assure you that leases at our properties will be renewed or that such properties will be re-leased at net effective rental rates equal to or above the then current average net effective rental rates or at all. In

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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 our ability to satisfy our debt service obligations could be materially adversely affected. In addition, if we are unable to renew leases or re-lease a property, the resale value of that property could be diminished because the market value of a particular property will depend in part upon the value of the leases of such property.

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

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

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

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

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

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

In general, we prefer to utilize local third-party managers for day-to-day property management, although we may directly manage other properties in the future. To the extent we utilize third-party managers, our cash flows from our industrial properties may be adversely affected if our managers fail to provide quality services. In addition, our managers or their affiliates may manage, and in some cases may own, invest in or provide credit

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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, renovation 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. Such risks include the expenditure of money and time on projects that do not perform as expected; higher than estimated construction or operating costs, including labor and material costs; the inability to complete construction on the timeframe we expect; occupancy and rental rates that may not meet expectations; and the inability to obtain financing on favorable terms or at all to finance redevelopment, renovation and expansion projects.

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

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

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

Our business strategy contemplates the use of both non-recourse secured debt and unsecured debt to finance long-term growth. As of December 31, 2017, we had total debt, net of deferred financing costs, of approximately $461.7 million, which consisted of term loan borrowings, senior unsecured note borrowings and mortgage loans payable. While over the long term we intend to limit the sum of the outstanding principal amount of our consolidated indebtedness and the liquidation preference of any outstanding shares of preferred stock to less than 35% of our total enterprise value, our governing documents contain no limitations on the amount of debt that we may incur, and our board of directors may change our financing policy at any time without stockholder approval. Over the long-term, we also intend to maintain a fixed charge coverage ratio in excess of 2.0x and a debt-to-adjusted EBITDA ratio below 6.0x 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.

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

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

Our $200.0 million revolving credit facility, our $150.0 million of term loans, our $250.0 million of senior unsecured notes and certain of our existing mortgage loans payable contain, and we expect that our future indebtedness will contain, covenants that could limit our operations and our ability to make distributions to our stockholders.

We have a credit facility, which consists of a $200.0 million revolving credit facility that matures in August 2020, a $50.0 million term loan that matures in August 2021 and a $100.0 million term loan that matures in January 2022. We also have $250.0 million of senior unsecured notes outstanding. We have agreed to guarantee the obligations of the borrower (a wholly-owned subsidiary) under our revolving credit facility, our term loans and our senior unsecured notes. Our revolving credit facility, our term loans, our senior unsecured notes and certain of our existing mortgage loans payable contain, and we expect that our future indebtedness will contain, financial and operating covenants, such as fixed charge coverage and debt ratios and other limitations that will limit or restrict our ability to make distributions or other payments to our stockholders and may restrict our investment activities. For example, our credit facility restricts distributions if we are in default and otherwise limits our fiscal year distributions to 95% of our funds from operations. The covenants in our debt agreements may restrict our ability to engage in transactions that we believe would otherwise be in the best interests of our stockholders or obtain necessary funds. Given the restrictions in our debt covenants on these and other activities, we may be limited in our operating and financial flexibility and in our ability to respond to changes in our business or competitive activities in the future.

Failure to meet our financial covenants could result from, among other things, changes in our results of operations, the incurrence of debt or changes in general economic conditions. In addition, the failure of at least one of our chief executive officer and our president or any successors approved by the administrative agent to continue to be active in our day-to-day management constitutes an event of default under our credit facility. We have 120 days under our credit facility to hire a successor executive reasonably satisfactory to the administrative agent in the event that both our chief executive officer and our president or any successors cease to be active in our management. If we violate covenants or if there is an event of default under our credit facility, our senior unsecured notes, our existing mortgage loans payable or in our future agreements, we could be required to repay all or a portion of our indebtedness before

maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all which may have a material adverse effect on our cash flows, financial condition and results of operations.

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

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

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

If we provide debtor-in-possession financing, a default by the borrower could adversely affect our cash flows.

We may on a limited basis provide debtor-in-possession financing to a property owner that has filed for bankruptcy, or make a loan secured by real estate that we might otherwise purchase directly. We expect that any such loans would be secured by one or more properties that we intend to acquire and that we would have the option to acquire such property in lieu of the repayment of such loan. Any default by the borrower under any such loan could negatively impact our cash flows and our ability to make cash distributions to our stockholders and result in litigation and related expenses. Although we would expect to acquire the secured property upon a borrower s default, there is no assurance that we will successfully foreclose on a property, and any such foreclosure could result in significant expenses.

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

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

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

We may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements, such as cap contracts and swap agreements. For example, we have executed interest rate caps to hedge the variable cash flows associated with our $150.0 million of variable-rate term loans. These agreements have costs and involve the risks that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule

that such agreements are not legally enforceable. Hedging may reduce overall returns on our investments. Failure to hedge effectively against interest rate changes may materially adversely affect our results of operations.

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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.

While we have no current intention to do so, 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.

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

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

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

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

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

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

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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 the past, 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 the past, 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.

We may not acquire the industrial properties that we have entered into agreements to acquire.

We have entered into agreements with third-party sellers to acquire three properties as more fully described under the heading Contractual Obligations in this Annual Report on Form 10-K. There is no assurance that we will acquire the properties under contract because the proposed acquisitions are subject to the completion of satisfactory due diligence and various closing conditions. There is no assurance that such proposed acquisitions, if completed, will be completed on the timeframe we expect. If we do not complete the acquisition of the properties under contract, we will have incurred expenses without our stockholders realizing any benefit from the acquisition of such properties.

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

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

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

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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 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.

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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 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.

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

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

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

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

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

If any of our insurance carriers becomes insolvent, we could be adversely affected.

We carry several different lines of insurance with several large insurance carriers. If any one of these large insurance carriers were to become insolvent, we would be forced to replace the existing insurance coverage with another suitable carrier, and any outstanding claims would be at significant risk for collection. In such an event, we cannot be certain that we would be able to replace the coverage at similar or otherwise favorable terms. Replacing insurance coverage at unfavorable rates and the potential of uncollectible claims due to carrier insolvency would likely adversely affect us.

Contingent or unknown liabilities could adversely affect our financial condition.

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

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

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

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

Environmentally hazardous conditions may adversely affect our operating results.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of removing or remediating hazardous or toxic substances on such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Even if more than one person may have been responsible for the contamination, each person covered by applicable environmental laws may be held responsible for all of the

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clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages based on personal injury, natural resource or property damage or other costs, including investigation and clean-up costs, resulting from the environmental contamination. The presence of hazardous or toxic substances on one of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination, or otherwise adversely affect our ability to sell or lease the property or borrow using the property as collateral. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated. A property owner who violates environmental laws may be subject to sanctions which may be enforced by governmental agencies or, in certain circumstances, private parties. In connection with the acquisition and ownership of our properties, we may be exposed to such costs. The cost of defending against environmental claims, of compliance with environmental regulatory requirements or of remediating any contaminated property could materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to our stockholders.

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

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

We generally obtain Phase I environmental site assessments on each property prior to acquiring it and we generally anticipate that the properties that we may acquire in the future may be subject to a Phase I or similar environmental assessment by independent environmental consultants at the time of acquisition. Phase I assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. Phase I assessments generally include a historical review, a public records review, an investigation of the surveyed site and surrounding properties, and preparation and issuance of a written report, but do not include soil sampling or subsurface investigations and typically do not include an asbestos survey. Even if none of our environmental assessments of our properties reveal an environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations taken as a whole, we cannot give any

assurance that such conditions do not exist or may not arise in the future. Material environmental conditions, liabilities or compliance concerns may arise after the environmental assessment has been completed. Moreover, there can be no assurance that (i) future laws, ordinances or regulations will not impose any material environmental liability or (ii) the environmental condition of our properties will not be affected by tenants, by the condition of land or operations in the vicinity of such properties (such as releases from underground storage tanks), or by third parties unrelated to us.

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

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

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

subject to risks from rising sea levels if such rising were to occur.

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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 and other similar regulations, places of public accommodation must meet certain requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines or the award of damages to private litigants. If we are required to make unanticipated expenditures to comply with the Americans with Disabilities Act and other similar regulations, 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 and other similar regulations, 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 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.

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

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

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

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

Risks Related to Our Organizational Structure

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

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

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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. Our board of directors has also adopted a resolution prohibiting us from electing to be subject to the provisions of Title 3, Subtitle 8 of the MGCL that would permit our board of directors to classify the board without stockholder approval. Such provisions of Title 3, Subtitle 8 of the MGCL could have an anti-takeover effect. We may only elect to be subject to the classified board provisions of Title 3, Subtitle 8 after first obtaining the approval of our stockholders.

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 board of directors, with stockholder approval, as applicable, 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 and state income tax at regular corporate rates; 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.

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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, for taxable years beginning after December 31, 2017 and before January 1, 2026, new legislation provides for a deduction of up to 20% (subject to certain limitations) on most ordinary REIT dividends and certain trade or business income of non-corporate taxpayers. Additionally, 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

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our stockholders and the ownership of our capital stock. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our performance.

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investments in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the total voting power of the outstanding securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total assets can be represented by the securities of one or more TRSs at the close of each calendar quarter. 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 20% 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 20% of the value of our total assets (including the TRS stock and securities) at the close of each calendar quarter. Furthermore, we will monitor the value of our investments in TRSs for the purpose of ensuring compliance with the foregoing rule. 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 20% 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.

Stockholders and prospective investors are urged to consult with their tax advisors regarding the effects of recently enacted tax legislation and other legislative, regulatory and administrative developments.

On December 22, 2017, President Trump signed into law H.R. 1, informally titled the Tax Cuts and Jobs Act (the TCJA). The TCJA makes major changes to the Code, including a number of provisions of the Code

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that affect the taxation of REITs and their stockholders. Among the changes made by the TCJA are permanently reducing the generally applicable corporate tax rate, generally reducing the tax rate applicable to individuals and other non-corporate taxpayers for tax years beginning after December 31, 2017 and before January 1, 2026, eliminating or modifying certain previously allowed deductions (including substantially limiting interest deductibility and, for individuals, the deduction for non-business state and local taxes), and, for taxable years beginning after December 31, 2017 and before January 1, 2026, providing for preferential rates of taxation through a deduction of up to 20% (subject to certain limitations) on most ordinary REIT dividends and certain trade or business income of non-corporate taxpayers. The TCJA also imposes new limitations on the deduction of net operating losses, which may result in us having to make additional taxable distributions to our stockholders in order to comply with REIT distribution requirements or avoid taxes on retained income and gains. The effect of the significant changes made by the TCJA is highly uncertain, and administrative guidance will be required in order to fully evaluate the effect of many provisions. The effect of any technical corrections with respect to the TCJA could have an adverse effect on us or our stockholders. Stockholders and prospective investors should consult their tax advisors regarding the implications of the TCJA on their investment in our common stock.

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

Level of cash distributions, market interest rates and other factors may affect the value of our common 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 will be influenced by the dividend yield on the common 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 to go down. The trading price of the shares of common 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 legislation, 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.

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

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

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

The market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common 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 will not fluctuate or decline significantly in the future.

Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock 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.

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Future offerings of debt securities and the incurrence of other future indebtedness, which would be senior to our common 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.

Upon liquidation, holders of our debt securities and any shares of preferred stock, and lenders with respect to other borrowings, including our existing credit facility and mortgage loans payable, will receive distributions of our available assets prior to the holders of our common stock. In the future we may attempt to increase our capital resources by making additional offerings of debt and equity securities. Additional equity offerings may dilute the holdings of our existing stockholders and/or reduce the market price of our common stock. In addition, future offerings of debt securities or the incurrence of additional other indebtedness may reduce the market price of our common stock. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Our preferred stock, if issued in the future, could have 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 and diluting their stock holdings in us.

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

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

- our inability to realize attractive returns on our investments;
- unanticipated expenses or reduced revenues that reduce our cash flow or non-cash earnings;
- our debt service obligations; and
- decreases in the value of our industrial properties that we own.

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

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

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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, 2017, we owned 196 buildings aggregating approximately 13.0 million square feet and ten improved land parcels consisting of 47.9 acres. The properties are located in Los Angeles, Northern New Jersey/New York City, San Francisco Bay Area, Seattle, Miami, and Washington, D.C. As of December 31, 2017, our properties were approximately 97.3% leased to 426 customers, the largest of which accounted for approximately 5.1% of our total annualized base rent. We own several types of industrial real estate, including warehouse/distribution (approximately 93.5% of our total portfolio square footage as of December 31, 2017), flex (including light industrial and R&D) (approximately 5.1%) and transshipment (approximately 1.4%). See Item 1 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, 2017:

Market	Number of Buildings	Rentable Square Feet	% of Total	Occupancy % as of December 31, 2017	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)[3]
Los Angeles	35	2,637,597	20.3%	100.0%	$ 19,726	18.6%	$ 7.48	7.4	$ 371,716
Northern New Jersey/New York City	55	3,145,507	24.3%	98.6%	26,369	24.9%	8.51	4.3	412,808
San Francisco Bay Area	27	1,368,607	10.6%	96.9%	14,688	13.8%	11.08	4.9	205,210
Seattle	24	1,626,620	12.5%	99.4%	12,275	11.6%	7.59	3.5	180,125
Miami	31	1,991,992	15.4%	97.9%	14,665	13.8%	7.52	3.6	183,377
Washington, D.C.	24	2,197,961	16.9%	90.7%	18,337	17.3%	9.19	4.3	283,694

Total/Weighted Average	196	12,968,284	100.0%	97.3%	$ 106,060	100.0%	$ 8.40	4.8	$ 1,636,930

1 Annualized base rent is calculated as contractual monthly base rent per the leases, excluding any partial or full rent abatements, as of December 31, 2017, multiplied by 12.

2 Weighted average remaining lease term is calculated by summing the remaining lease term of each lease as of December 31, 2017, weighted by the respective square footage.

3 Includes 47.9 acres of improved land as discussed below.

We also own ten improved land parcels totaling approximately 47.9 acres that are approximately 78.0% leased to ten tenants. Such land is used for truck, trailer and container storage and/or car parking. In the future, we may consider redeveloping such land.

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The following table summarizes by market our investments in improved land as of December 31, 2017:

Market	Number of Parcels	Acres	% of Total	Occupancy % as of December 31, 2017	Annualized Base Rent (000's)[1]	% of Total	Annualized Base Rent Per Occupied Square Foot	Weighted Average Remaining Lease Term (Years)[2]
Los Angeles	3	8.0	16.7%	100.0%	$ 466	15.5%	$ 1.33	1.4
Northern New Jersey/New York City	4	23.3	48.6%	54.8%	1,596	53.1%	2.86	6.2
San Francisco Bay Area			0.0%			0.0%		
Seattle			0.0%			0.0%		
Miami	2	3.2	6.7%	100.0%	209	7.0%	1.51	1.3
Washington, D.C.	1	13.4	28.0%	100.0%	734	24.4%	1.26	2.3
Total/Weighted Average	10	47.9	100.0%	78.0%	$ 3,005	100.0%	$ 1.85	3.4

1 Annualized base rent is calculated as contractual monthly base rent per the leases, excluding any partial or full rent abatements, as of December 31, 2017, multiplied by 12.

2 Weighted average remaining lease term is calculated by summing the remaining lease term of each lease as of December 31, 2017, weighted by the respective square footage.

The following table summarizes our capital expenditures incurred during the three months and years ended December 31, 2017 and 2016 (dollars in thousands):

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2017	2016	2017	2016
Building improvements	$ 2,742	$ 2,862	$ 11,626	$ 11,621
Tenant improvements	2,147	3,121	7,083	8,398
Leasing commissions	2,790	2,638	7,537	9,613
Redevelopment and expansion				15,641
Total capital expenditures [1]	$ 7,679	$ 8,621	$ 26,246	$ 45,273

[1] Includes approximately $3.7 million and $5.2 million for the three months ended December 31, 2017 and 2016, respectively, and approximately $13.3 million and $35.2 million for the years ended December 31, 2017 and 2016, respectively, related to leasing acquired vacancy, redevelopment construction in progress and renovation and expansion projects (stabilization capital) at 12 and 14 properties for the three months ended December 31, 2017 and 2016, respectively, and 18 and 25 properties for the years ended December 31, 2017 and 2016, respectively.

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The following table summarizes the anticipated lease expirations for leases in place at December 31, 2017, without giving effect to renewal options or termination rights, if any, at or prior to the scheduled expirations:

Year	Rentable Square Feet	% of Total Rentable Square Feet	Annualized Base Rent (000 s)[2]	% of Total Annualized Base Rent
2018 [1]	1,216,419	9.4%	$ 9,911	8.4%
2019	2,064,797	15.9%	16,240	13.7%
2020	1,696,971	13.1%	15,695	13.2%
2021	2,131,434	16.4%	18,099	15.3%
2022	1,580,411	12.2%	15,575	13.1%
Thereafter	3,934,552	30.3%	43,012	36.3%
Total	12,624,584	97.3%	$ 118,532	100.0%

1 Includes leases that expire on or after December 31, 2017 and month-to-month leases totaling approximately 26,963 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, 2017 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, 2017, leases representing approximately 9.4% of the total rentable square footage of our portfolio are scheduled to expire during the year ending December 31, 2018. We currently expect that on average, the rental rates we are likely to achieve on any new (re-leased) or renewed leases for our 2018 expirations will be above the rates currently being paid for the same space. The tenant at our Belleville property will receive approximately $0.6 million in rent abatements during 2018 under the terms of a previously negotiated ten-year lease extension. 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 91.8% 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, 2017 are as follows:

	Customer	Leases	Rentable Square Feet	% of Total Rentable Square Feet	Annualized Base Rent (000 s)[1]	% of Total Annualized Base Rent
1	FedEx Corporation	8	542,865	4.2%	$ 5,606	5.1%
2	United States Government	9	381,431	2.9%	4,696	4.3%
3	Danaher	3	171,707	1.3%	2,961	2.7%
4	H.D. Smith Wholesale Drug Company	1	211,418	1.6%	2,260	2.1%
5	Northrop Grumman Systems	2	199,866	1.5%	2,197	2.0%
6	District of Columbia	3	149,203	1.2%	1,600	1.5%
7	XPO Logistics	2	180,717	1.4%	1,497	1.4%
8	Synergy Custom Fixtures	1	301,983	2.3%	1,478	1.4%
9	West Coast Warehouse	1	265,500	2.0%	1,468	1.3%
10	YRC	2	61,252	0.5%	1,337	1.2%
11	O Neill Logistics	2	237,692	1.8%	1,323	1.2%
12	Miami International Freight Systems	1	192,454	1.5%	1,245	1.1%
13	Bar Logistics	2	203,263	1.6%	1,220	1.1%
14	Avborne Accessory Group	1	137,594	1.1%	1,113	1.0%
15	Space Systems/Loral LLC	2	107,060	0.8%	1,107	1.0%
16	Amazon.com	1	158,168	1.2%	1,044	1.0%
17	Exquisite Apparel Corporation	1	114,061	0.9%	985	0.9%
18	JAM N Logistics	1	110,336	0.9%	936	0.9%
19	Home Depot	1	192,000	1.5%	930	0.9%
20	Service West Inc.	1	129,279	1.0%	820	0.7%
	Total	45	4,047,849	31.2%	$ 35,823	32.8%

[1] Annualized base rent is calculated as contractual monthly base rent per the leases, excluding any partial or full rent abatements, as of December 31, 2017, multiplied by 12.

As of December 31, 2017, nine of our properties with a gross investment book value of approximately $153.7 million were encumbered by mortgage loans payable, including premiums and net of deferred financing costs, totaling approximately $64.8 million, which bear interest at a weighted average fixed annual rate of 4.0%.

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 Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

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 per common share
2017			
First Quarter	$ 29.04	$ 26.52	$ 0.20
Second Quarter	33.81	28.01	0.20
Third Quarter	36.99	32.74	0.22
Fourth Quarter	38.32	34.78	0.22
2016			
First Quarter	$ 23.81	$ 20.67	$ 0.18
Second Quarter	25.59	21.98	0.18
Third Quarter	28.12	25.35	0.20
Fourth Quarter	28.83	24.91	0.20

As of January 25, 2018, there were approximately 18,425 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;

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our property dispositions;

our taxable income;

the annual distribution requirement under the REIT provisions of the Code;

our operating expenses;

restrictions on the availability of funds under Maryland law; and

other factors that our board of directors may deem relevant.

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

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

The following table sets forth the cash dividends paid or payable during the years ended December 31, 2017 and 2016:

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2017	Common stock	$ 0.200000	February 7, 2017	March 28, 2017	April 12, 2017
March 31, 2017	Preferred stock	$ 0.484375	February 7, 2017	March 10, 2017	March 31, 2017
June 30, 2017	Common stock	$ 0.200000	May 2, 2017	July 7, 2017	July 21, 2017
June 30, 2017	Preferred stock	$ 0.484375	May 2, 2017	June 9, 2017	June 30, 2017
September 30, 2017	Common stock	$ 0.220000	August 1, 2017	October 6, 2017	October 21, 2017
December 31, 2017	Common stock	$ 0.220000	October 31, 2017	December 29, 2017	January 12, 2018

For the Three	Security		Declaration Date	Record Date	Date Paid

Months Ended		Dividend per Share			
March 31, 2016	Common stock	$ 0.180000	February 9, 2016	March 28, 2016	April 12, 2016
March 31, 2016	Preferred stock	$ 0.484375	February 9, 2016	March 10, 2016	March 31, 2016
June 30, 2016	Common stock	$ 0.180000	May 3, 2016	July 7, 2016	July 21, 2016
June 30, 2016	Preferred stock	$ 0.484375	May 3, 2016	June 10, 2016	June 30, 2016
September 30, 2016	Common stock	$ 0.200000	July 26, 2016	October 7, 2016	October 21, 2016
September 30, 2016	Preferred stock	$ 0.484375	July 26, 2016	September 9, 2016	September 30, 2016
December 31, 2016	Common stock	$ 0.200000	November 1, 2016	December 30, 2016	January 13, 2017
December 31, 2016	Preferred stock	$ 0.484375	November 1, 2016	December 9, 2016	December 30, 2016

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Performance Graph

The following graph compares the change in the cumulative total stockholder return on our common stock during the period from December 31, 2012 to December 31, 2017 with the cumulative total return of the Standard and Poor s 500 Stock Index, the MSCI U.S. REIT Index (RMS) and the FTSE NAREIT Equity Industrial Index. The return shown on the graph is not necessarily indicative of future performance. The comparison assumes that $100 was invested on December 31, 2012 in our common stock and in each of the foregoing indices and assumes reinvestment of dividends, if any.

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

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Item 6. Selected Financial Data.

The following table sets forth selected financial data derived from our audited consolidated financial statements as of and for the years ended December 31, 2017, 2016, 2015, 2014, and 2013, 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,				
	2017	2016	2015	2014	2013
Operating Data					
Total revenues	$ 132,484	$ 108,418	$ 95,895	$ 68,875	$ 45,529
Total costs and expenses	93,435	87,172	82,240	51,567	36,973
Gain on sales of real estate investments	30,654	7,140	10,567		
Income from continuing operations	53,095	15,118	14,601	10,718	2,451
Income from discontinued operations					1,412
Gain on sales of real estate investments					2,778
Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends	49,015	11,458	10,958	7,126	3,056
Earnings per Common Share - Basic and Diluted:					
Income (loss) from continuing operations available to common stockholders, net of redemption of preferred stock and preferred stock dividends	$ 0.95	$ 0.26	$ 0.26	$ 0.23	$ (0.05)
Income from discontinued operations					0.20
Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends	$ 0.95	$ 0.26	$ 0.26	$ 0.23	$ 0.15
Dividends declared per common share	$ 0.84	$ 0.76	$ 0.66	$ 0.57	$ 0.51
Dividends declared per preferred share	0.97	1.94	1.94	1.94	1.94
	51,357,719	44,725,936	42,861,276	30,433,017	21,011,276

Basic and Diluted Weighted Average Common Shares Outstanding					
Other Data					
Funds from operations [1]	$ 56,070	$ 38,391	$ 36,172	$ 26,097	$ 12,689
Basic and diluted FFO per common share [1]	1.09	0.86	0.84	0.86	0.60
Cash flows provided by (used in):					
Operating activities	$ 69,498	$ 49,241	$ 42,068	$ 29,321	$ 13,495
Investing activities	(249,118)	(149,629)	(259,664)	(245,526)	(201,400)
Financing activities	203,942	93,758	45,140	404,207	189,429
Balance Sheet Data					
Investments in real estate at cost [2]	$ 1,636,930	$ 1,343,038	$ 1,179,920	$ 901,273	$ 651,839
Total assets	1,567,871	1,278,981	1,152,138	1,074,735	644,165
Total debt	461,683	415,327	381,475	302,470	190,472
Total stockholders equity	1,027,494	811,805	733,082	747,036	438,835

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[1] See Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures, in this Annual Report on Form 10-K for a reconciliation to net income, net of redemption of preferred stock and preferred stock dividends and a discussion of why we believe funds from operations, or FFO, is a useful supplemental measure of operating performance, ways in which investors might use FFO when assessing our financial performance, and FFO s limitations as a measurement tool.

[2] Excludes one property held for sale with a gross book value of approximately $6.3 million as of December 31, 2015 and 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. We invest in several types of industrial real estate, including warehouse/distribution (approximately 93.5% of our total portfolio square footage as of December 31, 2017), flex (including light industrial and R&D) (approximately 5.1%) and transshipment (approximately 1.4%). 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, 2017, we owned 196 buildings aggregating approximately 13.0 million square feet and ten improved land parcels consisting of 47.9 acres, which we purchased for an aggregate purchase price of approximately $1.5 billion. As of December 31, 2017, our properties were approximately 97.3% leased to 426 customers, the largest of which accounted for approximately 5.1% of our total annualized base rent. We are an internally managed Maryland corporation and elected to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ended December 31, 2010.

Our Investment Strategy

We acquire, own and operate 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. We invest in several types of industrial real estate, including warehouse/distribution, flex (including light industrial and R&D) and transshipment. 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, e-commerce, 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 may directly manage properties in the future if we determine such direct property management is in our best interest.

We have no current intention to acquire undeveloped or unimproved industrial land or to pursue greenfield ground up development. However, we may pursue redevelopment, renovation and expansion opportunities of properties that we own, acquire properties and improved land parcels with the intent to redevelop in the near-term, or acquire adjacent land to expand our existing facilities.

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

The properties we acquire may be stabilized (fully leased) or unstabilized (have near term lease expirations or be partially or fully vacant). During the period from February 16, 2010 to December 31, 2017, we have stabilized 58 properties.

We sell properties from time to time when we believe the prospective total return from a property is particularly low relative to its market value and/or the market value of the property is significantly greater than its estimated replacement cost. Capital from such sales is reinvested into properties that are expected to provide better prospective returns or returned to shareholders. We have disposed of 11 properties since inception for a cumulative sales price of approximately $160.4 million and a total gain of approximately $55.1 million.

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2017 Developments

Acquisition Activity

During 2017, we acquired 35 industrial buildings containing approximately 1.7 million square feet and five improved land parcels consisting of approximately 25.1 acres for a total purchase price of approximately $292.7 million. The properties and improved land parcels were acquired from unrelated third parties using existing cash on hand, proceeds from the issuance of common stock and senior unsecured notes, proceeds from the dispositions of properties, and proceeds from borrowings on our revolving credit facility. The following table sets forth the industrial properties and improved land parcels we acquired during 2017:

Property Name	Location	Acquisition Date	Number of Buildings	Square Feet	Purchase Price (in thousands)	Stabilized Cap Rate [2]
Acacia	Compton, CA	January 25, 2017	1	45,776	$ 7,103	4.9%
637 S. Lucile	Seattle, WA	February 3, 2017	1	45,320	7,750	6.0%
Lynwood [3]	Lynwood, CA	April 20, 2017	3	477,153	31,378	3.9%
West Side Ave	North Bergen, NJ	April 20, 2017	1	126,491	14,000	5.3%
Hanford	Seattle, WA	April 21, 2017	1	34,983	5,940	5.0%
2920 V Street	Washington, D.C.	May 10, 2017	1	21,666	3,727	5.0%
Avenue A	Carlstadt, NJ	May 10, 2017	4	32,676	12,000	5.7%
South Main III	Gardena, CA	June 2, 2017	1	114,061	24,700	3.7%
Frelinghuysen [4]	Newark, NJ	June 29, 2017			16,250	5.3%
Stockton [5]	Newark, NJ	June 30, 2017			13,200	5.4%
Telegraph	Santa Fe Springs, CA	July 6, 2017	2	86,814	14,930	4.7%
Dawson	Seattle, WA	July 7, 2017	1	13,176	4,000	2.8%
Walnut	Compton, CA	July 21, 2017	1	57,520	9,352	5.2%
NW 70th IV	Miami, FL	August 4, 2017	1	15,965	2,515	6.1%
Kero Road [6]	Carlstadt, NJ	September 1, 2017	2	43,407	13,500	5.2%
Hotchkiss	Fremont, CA	September 28, 2017	1	40,830	7,275	5.2%
104th St	Los Angeles, CA	October 19, 2017	1	20,055	4,750	4.5%
NW 94th Ave	Doral, FL	October 23, 2017	1	38,430	6,759	5.4%
NW 70th V [7]	Miami, FL	October 30, 2017	1	59,400	8,400	5.4%
2315 E Dominguez [8]	Los Angeles, CA	November 30, 2017			12,860	5.4%
1855 W 139th St	Carson, CA	December 15, 2017	2	230,891	37,550	4.2%
Hawthorne	Hawthorne, CA	December 19, 2017	8	152,025	27,600	4.4%
New Dutch	Fairfield, NJ	December 20, 2017	1	50,400	7,200	5.4%
Total/Weighted Average			35	1,707,039	$ 292,739	4.7%

1

Excludes intangible liabilities and mortgage premiums, if any. The total aggregate investment was approximately $319.7 million, including $5.5 million in closing costs and acquisition costs.

[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 approximately one million square feet of land, which is 100% ground leased on a long-term basis to two tenants, and contains two industrial distribution buildings and one rail transshipment facility.

[4] Represents an improved land parcel containing approximately 10.6 acres.

[5] Represents an improved land parcel containing approximately 7.2 acres.

[6] Also includes an improved land parcel containing approximately 1.1 acres.

[7] Also includes an improved land parcel containing approximately 0.9 acres.

[8] Represents an improved land parcel containing approximately 5.4 acres.

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Disposition Activity

During the year ended December 31, 2017, we sold four properties for an aggregate sales price of approximately $77.3 million, resulting in a total gain of approximately $30.6 million. We sold one property located in the Los Angeles market for a sales price of approximately $25.3 million, resulting in a gain of approximately $10.1 million, and three properties located in the Washington, D.C. market for an aggregate sales price of approximately $52.0 million, resulting in an aggregate gain of approximately $20.5 million.

The following summarizes the condensed results of operations of the properties sold during the year ended December 31, 2017 for the years ended December 31, 2017, 2016 and 2015 (dollars in thousands):

	For the Year Ended December 31,		
	2017	2016	2015
Rental revenues	$ 2,091	$ 3,732	$ 3,500
Tenant expense reimbursements	653	1,103	1,112
Property operating expenses	(778)	(1,216)	(1,309)
Depreciation and amortization	(472)	(1,119)	(1,248)
Income from operations	$ 1,494	$ 2,500	$ 2,055

ATM Program

We have an at-the-market equity offering program (the $200 Million ATM Program) pursuant to which we may issue and sell shares of our common stock having an aggregate offering price of up to $200.0 million in amounts and at times as we determine from time to time. Prior to the implementation of the $200 Million ATM Program, we had a $150.0 million ATM program (the $150 Million ATM Program), which was fully utilized as of June 30, 2017, and a $100.0 million ATM program (the $100 Million ATM Program), which was fully utilized as of December 31, 2016. During 2017, we issued an aggregate of 7,859,929 shares of common stock at a weighted average offering price of $32.48 per share under the $200 Million ATM Program and the $150 Million ATM Program, resulting in net proceeds of approximately $251.6 million and paying total compensation to the applicable sales agents of approximately $3.7 million. As of December 31, 2017, we had shares of common stock having an aggregate offering price of up to $90.1 million available for issuance under the $200 Million ATM Program.

Senior Unsecured Notes

On July 14, 2017, we issued in a private placement $100.0 million of senior unsecured notes with a seven-year term that bear interest at a fixed annual interest rate of 3.75% and mature in July 2024 (the July 2024 Senior Unsecured Notes). The net proceeds from the issuance were used to redeem all 1,840,000 outstanding shares of 7.75% Series A Cumulative Redeemable Preferred Stock (the Series A Preferred Stock), to repay the outstanding borrowings on our revolving credit facility and for property acquisitions.

Share Repurchase Program

On November 1, 2016, our Board of Directors approved an extension of the share repurchase program authorizing us to repurchase up to 2,000,000 shares of our outstanding common stock from time to time through December 31, 2018. Purchases made pursuant to the program, if any, will be made in either the open market or in privately negotiated transactions as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchases will be determined by us in our discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The program may be suspended or discontinued at any time. As of December 31, 2017 we have not repurchased any shares of stock pursuant to our share repurchase authorization.

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Dividend and Distribution Activity

The following table sets forth the cash dividends paid or payable per share during the year ended December 31, 2017:

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2017	Common stock	$ 0.200000	February 7, 2017	March 28, 2017	April 12, 2017
March 31, 2017	Preferred stock	$ 0.484375	February 7, 2017	March 10, 2017	March 31, 2017
June 30, 2017	Common stock	$ 0.200000	May 2, 2017	July 7, 2017	July 21, 2017
June 30, 2017	Preferred stock	$ 0.484375	May 2, 2017	June 9, 2017	June 30, 2017
September 30, 2017	Common stock	$ 0.220000	August 1, 2017	October 6, 2017	October 21, 2017
December 31, 2017	Common stock	$ 0.220000	October 31, 2017	December 29, 2017	January 12, 2018

Preferred Stock Redemption

On July 19, 2017, we redeemed all 1,840,000 outstanding shares of our Series A Preferred Stock for cash at a redemption price of $25.00 per share, plus an amount per share of $0.096875 representing all accrued and unpaid dividends per share from July 1, 2017 to, but excluding, July 19, 2017. We recognized a charge of approximately $1.8 million during the year ended December 31, 2017 representing the write-off of original issuance costs related to the redemption of the Series A Preferred Stock.

Recent Developments

Acquisition Activity

Subsequent to December 31, 2017, we acquired one industrial building containing approximately 100,000 square feet for a total purchase price of approximately $17.5 million. The property was acquired from unrelated third parties using cash on hand. The following table sets forth the wholly-owned industrial property we acquired subsequent to December 31, 2017:

Property Name	Location	Acquisition Date	Number of Buildings	Square Feet	Purchase Price (in thousands)	Stabilized Cap Rate
19801 S Vermont Avenue	Torrance, CA	January 31, 2018	1	99,629	$ 17,500	3.3%
Total/Weighted Average			1	99,629	$ 17,500	3.3%

Contractual Commitments

As of February 7, 2018, we have three outstanding contracts with third-party sellers to acquire three industrial properties as further described under the heading Contractual Obligations in this Annual Report on Form 10-K. There is no assurance that we will acquire the properties under contract because the proposed acquisitions are subject to the

completion of satisfactory due diligence and various closing conditions.

As of February 7, 2018, we have two outstanding contracts with third-party purchasers to sell two properties consisting of three buildings for an aggregate sales price of approximately $39.3 million (aggregate net book value of approximately $29.4 million). There is no assurance we will sell the properties under contract because the proposed dispositions are subject to the purchaser s completion of satisfactory due diligence and various closing conditions.

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Outlook

Current operating conditions in our six markets are excellent, the best we have seen since our initial public offering. We believe that on average, the rental rates we are likely to achieve on new or renewed leases for our 2018 expirations will be above the rates currently being paid for the same space. However, new speculative development continues. This new development will slow potential rent growth from what it would be without such new development. Macroeconomic conditions, while uncertain and impossible to accurately predict, appear favorable to us.

We see attractive acquisition opportunities today; however, our acquisition volume will be dependent on both the quality and pricing of the opportunity set and the price of our stock relative to NAV. Those conditions, not knowable in advance, will determine our results. We entered 2018 with our balance sheet well positioned for growth.

Over the intermediate term of the next three to four years, although there can be no assurance, we expect to grow our portfolio to approximately $3.0 billion of assets up from approximately $2.4 billion as of December 31, 2017 as measured by our total market capitalization. We expect, although there can be no assurance, that this will utilize approximately $2.0 billion of equity up from approximately $1.9 billion as of December 31, 2017. We expect this to enhance our operating efficiency, increase our shareholder liquidity and maintain our investment grade credit rating. We remain mindful, however, that it is per share, rather than aggregate, results that matter.

We believe in the long-term operating prospects of our functional, infill coastal assets. We believe in sound balance sheet management. We believe in the benefits of our market-leading corporate governance and exceptionally aligned executive management compensation. As a result, we are enthusiastic about the future and our ability to produce superior results for our shareholders over time.

We contribute positively to the environment by owning and operating facilities in infill locations close to population centers thereby minimizing vehicle miles traveled and the concomitant use of fuel and production of airborne particulate matter pollution. Further, we do no greenfield development of properties; sustainability for us means never building on a site that has not previously been commercially developed. During redevelopment of our facilities, we recycle the majority of the building materials from existing buildings and focuses on modern design solutions to reduce our impact on the environment. When releasing vacant space, we seek to reduce our carbon footprint by upgrading existing facilities with energy efficient lighting and heating.

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 increased construction costs but has not had a significant impact on our operating costs. 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 67.0% 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 91.8% of our leased space includes fixed rental increases or Consumer Price Index-based rental increases. Lease terms typically range from three to ten years.

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

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

The following analysis of our results below for the years ended December 31, 2017 and 2016 includes the changes attributable to same store properties. The same store pool for the comparison of the 2017 and 2016 fiscal years includes all properties that were owned and in operation as of December 31, 2017 and since January 1, 2016 and excludes properties that were either disposed of prior to, held for sale to a third-party or in redevelopment as of December 31, 2017. As of December 31, 2017, the same store pool consisted of 140 buildings aggregating approximately 10.2 million square feet representing approximately 78.3% of our total square feet owned and three improved land parcels consisting of 4.9 acres. As of December 31, 2017, the non-same store properties, which we acquired or sold during 2016 and 2017, were held for sale or in redevelopment as of December 31, 2017, consisted of 56 buildings aggregating approximately 2.8 million square feet and seven improved land parcels consisting of 43.0 acres. As of December 31, 2017 and 2016, our consolidated same store pool occupancy was approximately 97.5% and 98.9%, respectively.

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

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Comparison of the Year Ended December 31, 2017 to the Year Ended December 31, 2016:

	For the Year Ended December 31,			
	2017	2016	$ Change	% Change
	(Dollars in thousands)			
Rental revenues				
Same store	$ 83,464	$ 76,305	$ 7,159	9.4%
Non-same store operating properties [1]	19,865	8,713	11,152	128.0%
Total rental revenues	103,329	85,018	18,311	21.5%
Tenant expense reimbursements				
Same store	24,951	21,441	3,510	16.4%
Non-same store operating properties [1]	4,204	1,959	2,245	114.6%
Total tenant expense reimbursements	29,155	23,400	5,755	24.6%
Total revenues	132,484	108,418	24,066	22.2%
Property operating expenses				
Same store	29,456	27,755	1,701	6.1%
Non-same store operating properties [1]	6,418	2,570	3,848	149.7%
Total property operating expenses	35,874	30,325	5,549	18.3%
Net operating income [2]				
Same store	78,959	69,991	8,968	12.8%
Non-same store operating properties [1]	17,651	8,102	9,549	117.9%
Total net operating income	$ 96,610	$ 78,093	$ 18,517	23.7%
Other costs and expenses				
Depreciation and amortization	37,870	34,399	3,471	10.1%
General and administrative	19,681	19,319	362	1.9%
Acquisition costs	10	3,129	(3,119)	(99.7)%
Total other costs and expenses	57,561	56,847	714	1.3%
Other income (expense)				
Interest and other income	169	24	145	604.2%
Interest expense, including amortization	(16,777)	(13,053)	(3,724)	28.5%
Loss on extinguishment of debt		(239)	239	(100.0)%
Gain on sales of real estate investments	30,654	7,140	23,514	329.3%

Total other income and (expenses)	14,046	(6,128)	20,174	n/a
Net income	$ 53,095	$ 15,118	$ 37,977	251.2%

1 Includes 2016 and 2017 acquisitions and dispositions and seven improved land parcels as of December 31, 2017.

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

Revenues. Total revenues increased approximately $24.1 million for the year ended December 31, 2017 compared to the prior year due primarily to property acquisitions during 2016 and 2017 and increased revenue on new and renewed leases. Same store rental revenues and tenant expense reimbursement revenues increased primarily due to new lease agreements at our V Street, Interstate 130, Hamilton, Airgate, Kent 202, and 180 Manor properties. For the quarter and year ended December 31, 2017, approximately $0.9 million and $3.1 million, respectively, was recorded in straight-line rental revenues related to contractual rent abatements given to certain tenants.

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Property operating expenses. Total property operating expenses increased approximately $5.5 million during the year ended December 31, 2017 compared to the same period from the prior year. The increase in total property operating expenses was due primarily to an increase of approximately $3.8 million attributable to property acquisitions during 2016 and 2017, an increase of approximately $1.4 million in same store real estate tax expense primarily due to increased taxes on our V Street, Hamilton, and Pennsy properties, and an increase of approximately $0.2 million in expenses related to Hurricane Irma, of which approximately $0.2 million was incurred at our same store operating properties.

Depreciation and amortization. Depreciation and amortization increased approximately $3.5 million during the year ended December 31, 2017 compared to the same period from the prior year due to property acquisitions during 2016 and 2017.

General and administrative expenses. General and administrative expenses increased approximately $0.4 million for the year ended December 31, 2017 compared to the same period from the prior year due primarily to increased compensation expense, bonus expense, and accounting service fees, offset by a decrease of approximately $0.6 million in performance share award expense, which varies quarter to quarter based on our relative share price performance. Performance share award expense for the year ended December 31, 2017 was approximately $6.7 million as compared to approximately $7.3 million for the prior year period. See Note 10 Stockholder s Equity in our notes to the consolidated financial statements for more information regarding our performance share awards.

Acquisition costs. Acquisition costs decreased by approximately $3.1 million for the year ended December 31, 2017 from the prior year due to the adoption of ASU 2017-1 effective January 1, 2017 under which our real estate property acquisitions are accounted for as asset acquisitions. Acquisition costs were capitalized to individual assets and liabilities acquired on a relative fair value basis for the year ended December 31, 2017 as compared to expensing as incurred in the prior year period.

Interest and other income. Interest and other income increased approximately $0.1 million for the year ended December 31, 2017 compared to the same period from the prior year.

Interest expense, including amortization. Interest expense increased approximately $3.7 million for the year ended December 31, 2017 compared to the prior year due primarily to an increase in our average outstanding borrowings.

Gain on sales of real estate investments. Gain on sale of real estate investments increased approximately $23.5 million for the year ended December 31, 2017 compared to the prior year period due to property sales. The aggregate sales price for property sales for the year ended December 31, 2017 was approximately $77.3 million as compared to approximately $22.5 million for the prior year period.

The following analysis of our results below for the years ended December 31, 2016 and 2015 includes the changes attributable to same store properties. The same store pool for the comparison of the 2016 and 2015 fiscal years includes all properties that were owned and in operation as of December 31, 2016 and since January 1, 2015 and excludes properties that were either disposed of prior to, held for sale to a third-party or in redevelopment as of December 31, 2016. As of December 31, 2016, the same store pool consisted of 116 buildings aggregating approximately 8.6 million square feet representing approximately 71.9% of our total square feet owned and three improved land parcels consisting of 4.9 acres. As of December 31, 2016, the non-same store properties, which we acquired or sold during 2015 and 2016, were held for sale or in redevelopment as of December 31, 2016, consisted of 50 buildings aggregating approximately 3.4 million square feet and two improved land parcels consisting of 17.9

acres. As of December 31, 2016 and 2015, our consolidated same store pool occupancy was approximately 99.0% and 92.6%, respectively.

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Comparison of the Year Ended December 31, 2016 to the Year Ended December 31, 2015:

	For the Year Ended December 31,			
	2016	2015	$ Change	% Change
	(Dollars in thousands)			
Rental revenues				
Same store	$ 64,820	$ 62,930	$ 1,890	3.0%
Non-same store operating properties [1]	20,198	12,969	7,229	55.7%
Total rental revenues	85,018	75,899	9,119	12.0%
Tenant expense reimbursements				
Same store	18,008	16,990	1,018	6.0%
Non-same store operating properties [1]	5,392	3,006	2,386	79.4%
Total tenant expense reimbursements	23,400	19,996	3,404	17.0%
Total revenues	108,418	95,895	12,523	13.1%
Property operating expenses				
Same store	23,195	23,066	129	0.6%
Non-same store operating properties [1]	7,130	3,589	3,541	98.7%
Total property operating expenses	30,325	26,655	3,670	13.8%
Net operating income [2]				
Same store	59,633	56,854	2,779	4.9%
Non-same store operating properties [1]	18,460	12,386	6,074	49.0%
Total net operating income	$ 78,093	$ 69,240	$ 8,853	12.8%
Other costs and expenses				
Depreciation and amortization	34,399	36,026	(1,627)	(4.5)%
General and administrative	19,319	14,846	4,473	30.1%
Acquisition costs	3,129	4,713	(1,584)	(33.6)%
Total other costs and expenses	56,847	55,585	1,262	2.3%
Other income (expense)				
Interest and other income	24	18	6	33.3%
Interest expense, including amortization	(13,053)	(9,639)	(3,414)	35.4%
Loss on extinguishment of debt	(239)		(239)	n/a
Gain on sales of real estate investments	7,140	10,567	(3,427)	(32.4)%

Total other income and expenses	(6,128)	946	(7,074)	n/a
Net income	$ 15,118	$ 14,601	$ 517	3.5%

1 Includes 2015 and 2016 acquisitions and dispositions and two improved land parcels as of December 31, 2016.

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

Revenues. Total revenues increased approximately $12.5 million for the year ended December 31, 2016 compared to the prior year due primarily to property acquisitions during 2015 and 2016 and increased average 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 99.0% as of December 31, 2016 as compared to 92.6% as of December 31, 2015. For the quarter and year ended December 31, 2016, approximately $1.4 million and $3.9 million, respectively, was recorded in straight-line rental revenues related to contractual rent abatements given to certain tenants.

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Property operating expenses. Total property operating expenses increased approximately $3.7 million during the year ended December 31, 2016 compared to the same period from the prior year. The increase in total property operating expenses was due primarily to an increase of approximately $3.5 million attributable to property acquisitions during 2015 and 2016.

Depreciation and amortization. Depreciation and amortization decreased approximately $1.6 million during the year ended December 31, 2016 compared to the same period from the prior year due to additional depreciation expense of approximately $4.0 million incurred during the year ended December 31, 2015 related to the redevelopment of our South Main Street property as a result of the reduction of the useful lives of the original buildings, offset by property acquisitions during 2015 and 2016.

General and administrative expenses. General and administrative expenses increased approximately $4.5 million for the year ended December 31, 2016 compared to the same period from the prior year due primarily to an increase of approximately $2.8 million in performance share award expense, which varies quarter to quarter based on our relative share price performance. Performance share award expense for the year ended December 31, 2016 was approximately $7.3 million as compared to approximately $4.5 million for the prior year period as a result of our total shareholder return outperforming the MSCI U.S. REIT Index (RMS) and the FTSE NAREIT Equity Industrial Index over the prior three year period.

Acquisition costs. Acquisition costs decreased by approximately $1.6 million for the year ended December 31, 2016 from the prior year due to a lower volume of property acquisitions during the year ended December 31, 2016 as compared to the prior year.

Interest and other income. Interest and other income increased approximately $6,000 for the year ended December 31, 2016 compared to the same period from the prior year.

Interest expense, including amortization. Interest expense increased approximately $3.4 million for the year ended December 31, 2016 compared to the prior year due primarily to an increase in our average outstanding borrowings.

Gain on sales of real estate investments. Gain on sale of real estate investments decreased approximately $3.4 million for the year ended December 31, 2016 compared to the prior year period due to property sales. The aggregate sales price for property sales for the year ended December 31, 2016 was approximately $22.5 million as compared to approximately $24.6 million for the prior year period.

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, proceeds from dispositions of properties, 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 35% of our total enterprise value;

maintain a fixed charge coverage ratio in excess of 2.0x;

maintain a debt-to-adjusted EBITDA ratio below 6.0x;

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.

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

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

The following sets forth certain information regarding our current at-the-market common stock offering program as of December 31, 2017:

ATM Stock Offering Program	Date Implemented	Maximum Aggregate Offering Price (in thousands)	Aggregate Common Stock Available as of December 31, 2017 (in thousands)
$200 Million ATM Program	August 4, 2017	$ 200,000	$ 90,093

The table below sets forth the activity under the at-the-market common stock offering programs during the years ended December 31, 2017 and 2016, respectively (in thousands, except share data):

For the Year Ended	Shares Sold	Weighted Average Price Per Share	Net Proceeds (in thousands)	Sales Commissions (in thousands)
December 31, 2017	7,859,929	$ 32.48	$ 251,585	$ 3,709
December 31, 2016	3,991,830	$ 25.39	$ 99,866	$ 1,504

On July 14, 2017, we issued in a private placement $100.0 million of senior unsecured notes with a seven-year term that bear interest at a fixed annual interest rate of 3.75% and mature in July 2024. Net proceeds from the issuance

were used to redeem all 1,840,000 outstanding shares of Series A Preferred Stock, to repay the outstanding borrowings on our revolving credit facility, and for property acquisitions. As of December 31, 2017, we also had $50.0 million of senior unsecured notes that mature in September 2022, $50.0 million of senior unsecured notes that mature in July 2026, and $50.0 million of senior unsecured notes that mature in October 2027 (collectively, with the July 2024 Senior Unsecured Notes, the Senior Unsecured Notes), and a credit facility (the Facility), which consists of a $200.0 million revolving credit facility that matures in August 2020, a $50.0 million term loan that matures in August 2021 and a $100.0 million term loan that matures in January 2022. As of December 31, 2017 and December 31, 2016, there was $0 and $51.5 million, respectively, of borrowings outstanding on our revolving credit facility and $150.0 million and $150.0 million, respectively, of borrowings outstanding on our term loans. We have three interest rate caps to hedge the variable cash flows associated with our existing $150.0 million of variable-rate term loans. See Note 8-Derivative Financial Instruments in our notes to consolidated financial statements for more information regarding our interest rate caps.

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The aggregate amount of the Facility may be increased to a total of up to $600.0 million, subject to the approval of the administrative agent and the identification of lenders willing to make available additional amounts. Outstanding borrowings under the Facility are limited to the lesser of (i) the sum of the $150.0 million term loans and the $200.0 million revolving credit facility, or (ii) 60.0% of the value of the unencumbered properties. Interest on the Facility, including the term loans, is generally to be paid based upon, at our option, either (i) LIBOR plus the applicable LIBOR margin or (ii) the applicable base rate which is the greatest of the administrative agent s prime rate, 0.50% above the federal funds effective rate, or thirty-day LIBOR plus the applicable LIBOR margin for LIBOR rate loans under the Facility plus 1.25%. The applicable LIBOR margin will range from 1.35% to 1.90% (1.35% as of December 31, 2017) for the revolving credit facility and 1.30% to 1.85% (1.30% as of December 31, 2017) for the $50.0 million term loan that matures in August 2021 and the $100.0 million term loan that matures in January 2022, depending on the ratio of our outstanding consolidated indebtedness to the value of our consolidated gross asset value. The Facility requires quarterly payments of an annual unused facility fee in an amount equal to 0.20% or 0.25% depending on the unused portion of the Facility.

The Facility and the Senior Unsecured Notes are guaranteed by us and by substantially all of the current and to-be-formed subsidiaries of the borrower that own an unencumbered property. The Facility and the Senior Unsecured Notes are unsecured by our properties or by interests in the subsidiaries that hold such properties. The Facility and the Senior Unsecured Notes include a series of financial and other covenants with which we must comply. We were in compliance with the covenants under the Facility and the Senior Unsecured Notes as of December 31, 2017 and December 31, 2016.

As of December 31, 2017 and 2016, we had outstanding mortgage loans payable, net of deferred financing costs, of approximately $64.8 and $66.6 million, respectively, and held cash and cash equivalents totaling approximately $35.7 million and $14.2 million, respectively.

The following table summarizes our debt maturities and principal payments as of and for the year ended December 31, 2017, and market capitalization, capitalization ratios, Adjusted EBITDA, interest coverage, fixed charge coverage and debt ratios as of and for the years ended December 31, 2017 and 2016 (dollars in thousands except per share data):

	Credit Facility	Term Loans	Senior Unsecured Notes	Mortgage Loans Payable	Total Debt
2018	$	$	$	$ 1,910	$ 1,910
2019				18,805	18,805
2020				33,077	33,077
2021		50,000		11,271	61,271
2022		100,000	50,000		150,000
Thereafter			200,000		200,000
Subtotal		150,000	250,000	65,063	465,063
Unamortized net premiums					
Total Debt		150,000	250,000	65,063	465,063
Deferred financing costs, net		(1,103)	(2,045)	(232)	(3,380)

Total Debt, net	$	$ 148,897	$ 247,955	$ 64,831	$ 461,683
Weighted Average Interest Rate	n/a	2.5%	4.1%	4.0%	3.6%

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	As of December 31, 2017	As of December 31, 2016
Total Debt, net	$ 461,683	$ 415,327
Equity		
Common Stock		
Shares Outstanding [1]	55,368,737	47,414,365
Market Price [2]	$ 35.06	$ 28.49
Market Value	1,941,228	1,350,835
Preferred Stock ($25.00 per share liquidation preference)		46,000
Total Equity	1,941,228	1,396,835
Total Market Capitalization	$ 2,402,911	$ 1,812,162
Total Debt-to-Total Investments in Properties [3]	28.2%	30.9%
Total Debt-to-Total Market Capitalization [4]	19.2%	22.9%
Total Debt and Preferred Stock-to-Total Market Capitalization [5]	19.2%	25.5%
Floating Rate Debt as a % of Total Debt [6]	32.3%	48.2%
Unhedged Floating Rate Debt as a % of Total Debt [7]	0.0%	12.4%
Mortgage Loans Payable as a % of Total Debt [8]	14.0%	16.0%
Mortgage Loans Payable as a % of Total Investments in Properties [9]	4.0%	5.0%
Adjusted EBITDA [10]	$ 85,830	$ 68,242
Interest Coverage [11]	5.1x	5.2x
Fixed Charge Coverage [12]	4.6x	4.0x
Total Debt-to-Adjusted EBITDA [13]	5.3x	5.4x
Total Debt and Preferred Stock-to-Adjusted EBITDA [14]	5.3x	6.0x
Weighted Average Maturity of Total Debt (years)	5.4	5.8

1 Includes 357,183 and 395,281 shares of unvested restricted stock outstanding as of December 31, 2017 and 2016, respectively.

2 Closing price of our shares of common stock on the New York Stock Exchange on December 31, 2017 and 2016, respectively, in dollars per share.

3 Total debt-to-total investments in properties is calculated as total debt, including premiums and net of deferred financing costs, divided by total investments in properties.

4 Total debt-to-total market capitalization is calculated as total debt, including premiums and net of deferred financing costs, divided by total market capitalization as of December 31, 2017 and 2016, respectively.

5 Total debt and preferred stock-to-total market capitalization is calculated as total debt, including premiums and net of deferred financing costs, plus preferred stock at liquidation preference, if any, divided by total market capitalization as of December 31, 2017 and 2016, respectively. We redeemed all of our outstanding shares of

Series A Preferred Stock in July 2017.

6 Floating rate debt as a percentage of total debt is calculated as floating rate debt, including premiums and net of deferred financing costs, divided by total debt, including premiums and net of deferred financing costs. Floating rate debt includes our existing $150.0 million of variable-rate term loan borrowings with interest rate caps of 4.0% plus 1.30% to 1.85%, depending on leverage as of December 31, 2017 and 2016. See Note 8 Derivative Financial Instruments in our notes to consolidated financial statements for more information regarding our interest rate caps.

7 Unhedged floating rate debt as a percentage of total debt is calculated as unhedged floating rate debt, including premiums and net of deferred financing costs, divided by total debt, including premiums and net of deferred financing costs. Hedged debt includes our existing $150.0 million of variable-rate term loan borrowings with interest rate caps of 4.0% plus 1.30% to 1.85%, depending on leverage as of December 31, 2017 and 2016. See Note 8 Derivative Financial Instruments in our notes to consolidated financial statements for more information regarding our interest rate caps.

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[8] Mortgage loans payable as a percentage of total debt is calculated as mortgage loans payable, including premiums and net of deferred financing costs, divided by total debt, including premiums and net of deferred financing costs.

[9] Mortgage loans payable as a percentage of investments in properties is calculated as mortgage loans payable, including premiums and net of deferred financing costs, divided by total investments in properties.

[10] Earnings before interest, taxes, gains (losses) from sales of property, depreciation and amortization, acquisition costs and stock-based compensation (Adjusted EBITDA) for the years ended December 31, 2017 and 2016, respectively. See Non-GAAP Financial Measures in this Annual Report on Form 10-K for a definition and reconciliation of Adjusted EBITDA from net income and a discussion of why we believe Adjusted EBITDA is a useful supplemental measure of our operating performance.

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

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

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

[14] Total debt and preferred stock-to-Adjusted EBITDA is calculated as total debt, including premiums and net of deferred financing costs, plus preferred stock, if any, divided by annualized Adjusted EBITDA. We redeemed all of our outstanding shares of Series A Preferred Stock in July 2017. See Non-GAAP Financial Measures in this Annual Report on Form 10-K for a definition and reconciliation of Adjusted EBITDA from net income and a discussion of why we believe Adjusted EBITDA is a useful supplemental measure of our operating performance.

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The following table sets forth the cash dividends paid or payable per share during the years ended December 31, 2017 and 2016:

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2017	Common stock	$ 0.200000	February 7, 2017	March 28, 2017	April 12, 2017
March 31, 2017	Preferred stock	$ 0.484375	February 7, 2017	March 10, 2017	March 31, 2017
June 30, 2017	Common stock	$ 0.200000	May 2, 2017	July 7, 2017	July 21, 2017
June 30, 2017	Preferred stock	$ 0.484375	May 2, 2017	June 9, 2017	June 30, 2017
September 30, 2017	Common stock	$ 0.220000	August 1, 2017	October 6, 2017	October 21, 2017
December 31, 2017	Common stock	$ 0.220000	October 31, 2017	December 29, 2017	January 12, 2018

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2016	Common stock	$ 0.180000	February 9, 2016	March 28, 2016	April 12, 2016
March 31, 2016	Preferred stock	$ 0.484375	February 9, 2016	March 10, 2016	March 31, 2016
June 30, 2016	Common stock	$ 0.180000	May 3, 2016	July 7, 2016	July 21, 2016
June 30, 2016	Preferred stock	$ 0.484375	May 3, 2016	June 10, 2016	June 30, 2016
September 30, 2016	Common stock	$ 0.200000	July 26, 2016	October 7, 2016	October 21, 2016
September 30, 2016	Preferred stock	$ 0.484375	July 26, 2016	September 9, 2016	September 30, 2016
December 31, 2016	Common stock	$ 0.200000	November 1, 2016	December 30, 2016	January 13, 2017
December 31, 2016	Preferred stock	$ 0.484375	November 1, 2016	December 9, 2016	December 30, 2016

On July 19, 2017, we redeemed all 1,840,000 outstanding shares of our Series A Preferred Stock for cash at a redemption price of $25.00 per share, plus an amount per share of $0.096875 representing all accrued and unpaid dividends per share from July 1, 2017 to, but excluding, July 19, 2017.

Sources and Uses of Cash

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

Cash From Operating Activities. Net cash provided by operating activities totaled approximately $69.5 million for the year ended December 31, 2017 compared to approximately $49.2 million for the year ended December 31, 2016. This increase in cash provided by operating activities is primarily attributable to additional cash flows generated from properties acquired during 2017 and 2016.

Cash From Investing Activities. Net cash used in investing activities was approximately $249.1 million and $149.6 million, respectively, for the years ended December 31, 2017 and 2016, which consists primarily of cash paid for property acquisitions of $297.1 million and $128.5 million, respectively, and capital improvements of approximately $27.4 million and $42.5 million, respectively, offset by proceeds from sales of real estate investments

of approximately $75.4 million and $21.4 million, respectively, for the years ended December 31, 2017 and 2016.

Cash From Financing Activities. Net cash provided by financing activities was approximately $203.9 million for the year ended December 31, 2017, which consists primarily of approximately $251.5 million in net common stock issuance proceeds and $100.0 million in borrowings on senior unsecured notes, offset by approximately $43.9 million in equity dividend payments, the repurchase of approximately $46.0 million in preferred stock, and net payments on our revolving credit facility of approximately $51.5 million. Net cash provided by financing activities was approximately $93.8 million for the year ended December 31, 2016, which

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consists primarily of approximately $99.9 million in net common stock issuance proceeds and net borrowings on the revolving credit facility of approximately $51.5 million, offset by approximately $36.7 million in equity dividend payments and payments on mortgage loans payable of approximately $16.9 million.

Critical Accounting Policies

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

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

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

Property Acquisitions. Effective January 1, 2017, we adopted Accounting Standards Update (ASU) 2017-1, *Business Combinations* (Topic 805): *Clarifying the Definition of a Business* which requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the integrated set of assets and activities is not considered a business. To be a business, the set of acquired activities and assets must include inputs and one or more substantive processes that together contribute to the ability to create outputs. We have determined that our real estate property acquisitions will generally be accounted for as asset acquisitions under the clarified definition. Prior to January 1, 2017 we generally accounted for property acquisitions as business combinations, in accordance with Accounting Standards Codification (ASC) 805, *Business Combinations*. Upon acquisition of a property we estimate the fair value of acquired tangible assets (consisting generally of land, buildings and improvements) and intangible assets and liabilities (consisting generally of the above and below-market leases and the origination value of all in-place leases). We determine fair values using Level 3 inputs such as replacement cost, estimated cash flow projections and other valuation techniques and applying appropriate discount and capitalization rates based on available market information. Mortgage loans assumed in connection with acquisitions are recorded at their fair value using current market interest rates for similar debt at the date of acquisition. Acquisition-related costs associated with asset acquisitions are capitalized to individual tangible and intangible assets and liabilities assumed on a relative fair value basis and acquisition-related costs associated with business combinations are expensed as incurred.

The fair value of the tangible assets is determined by valuing the property as if it were vacant. Land values are derived from current comparative sales values, when available, or management s estimates of the fair value based on market conditions and the experience of our management team. Building and improvement values are calculated as replacement cost less depreciation, or management s estimates of the fair value of these assets using discounted cash flow analyses or similar methods. The fair value of the above and below-market leases is based

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on the present value of the difference between the contractual amounts to be received pursuant to the acquired leases (using a discount rate that reflects the risks associated with the acquired leases) and our estimate of the market lease rates measured over a period equal to the remaining term of the leases plus the term of any below-market fixed rate renewal options. The above and below-market lease values are amortized to rental revenues over the remaining initial term plus the term of any below-market fixed rate renewal options that are considered bargain renewal options of the respective leases. The origination value of in-place leases is based on costs to execute similar leases, including commissions and other related costs. The origination value of in-place leases also includes real estate taxes, insurance and an estimate of lost rental revenue at market rates during the estimated time required to lease up the property from vacant to the occupancy level at the date of acquisition.

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

Discontinued Operations. We consider a property to be classified as discontinued operations when it meets the criteria established under Accounting Standards Update (ASU) 2014-08. Disposals that represent a strategic shift that should have or will have a major effect on our operations and financial results qualify as discontinued operations.

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

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

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

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

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

Off-Balance Sheet Arrangements

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

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Contractual Obligations

As of February 7, 2018 we have three outstanding contracts with third-party sellers to acquire three industrial properties. There is no assurance that we will acquire the properties under contract because the proposed acquisitions are subject to the completion of satisfactory due diligence and various closing conditions. The following table summarizes certain information with respect to the properties we have under contract:

Market	Number of Buildings	Square Feet	Purchase Price (in thousands)	Assumed Debt (in thousands)
Los Angeles				$
Northern New Jersey/New York City	1	83,294	25,170	
San Francisco Bay Area				
Seattle	2	442,720	67,410	
Miami				
Washington, D.C.				
Total	3	526,014	$ 92,580	$

As of February 7, 2018, we have two outstanding contracts with third-party purchasers to sell two properties consisting of three buildings for an aggregate sales price of approximately $39.3 million (aggregate net book value of approximately $29.4 million). There is no assurance we will sell the properties under contract because the proposed dispositions are subject to the purchaser s completion of satisfactory due diligence and various closing conditions.

The following table summarizes our contractual obligations due by period as of December 31, 2017 (dollars in thousands):

Contractual Obligations	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Debt	$ 1,910	$ 51,882	$ 211,271	$ 200,000	$ 465,063
Debt interest payments	12,780	23,277	20,575	27,105	83,737
Operating lease commitments	258	534	416		1,208
Purchase obligations	92,580				92,580
Total	$ 107,528	$ 75,693	$ 232,262	$ 227,105	$ 642,588

Non-GAAP Financial Measures

We use the following non-GAAP financial measures that we believe are useful to investors as key supplemental measures of our operating performance: funds from operations, or FFO, Adjusted EBITDA, net operating income, or NOI, same store NOI and cash-basis same store NOI. FFO, Adjusted EBITDA, NOI, same store NOI and cash-basis

same store NOI should not be considered in isolation or as a substitute for measures of performance in accordance with GAAP. Further, our computation of FFO, Adjusted EBITDA, NOI, same store NOI and cash-basis same store NOI may not be comparable to FFO, Adjusted EBITDA, NOI, same store NOI and cash-basis same store NOI reported by other companies.

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

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

The following table reflects the calculation of FFO reconciled from net income (loss), net of redemption of preferred stock and preferred stock dividends for the three months ended December 31, 2017, 2016 and 2015 and for the years ended December 31, 2017, 2016 and 2015 (dollars in thousands except per share data):

	For the Three Months Ended December 31,				For the Three Months Ended December 31,			
	2017	2016	$ Change	% Change	2016	2015	$ Change	% Change
Net income, net of redemption of preferred stock and preferred stock dividends	$ 10,836	$ 941	$ 9,895	1051.5%	$ 941	$ (331)	$ 1,272	n/a
Gain on sales of real estate investments	(5,105)		(5,105)	n/a		(4,248)	4,248	n/a
Depreciation and amortization								
Depreciation and amortization from continuing operations	10,015	9,185	830	9.0%	9,185	12,065	(2,880)	(23.9)%
	(31)	(21)	(10)	47.6%	(21)	(23)	2	(8.7)%

Non-real estate depreciation								
Allocation to participating securities [1]	(107)	(84)	(23)	27.4%	(84)	(70)	(14)	20.0%
Funds from operations attributable to common stockholders [2, 3]	$ 15,608	$ 10,021	$ 5,587	55.8%	$ 10,021	$ 7,393	$ 2,628	35.5%
Basic and diluted FFO per common share	$ 0.29	$ 0.22	$ 0.07	31.8%	$ 0.22	$ 0.17	$ 0.05	29.4%
Weighted average basic and diluted common shares	54,563,353	46,277,521			46,277,521	42,906,538		

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	For the Year Ended December 31,				For the Year Ended December 31,			
	2017	2016	$ Change	% Change	2016	2015	$ Change	% Change
Net income, net of redemption of preferred stock and preferred stock dividends	$ 49,367	$ 11,553	$ 37,814	327.3%	$ 11,553	$ 11,036	$ 517	4.7%
Gain on sales of real estate investments	(30,654)	(7,140)	(23,514)	329.3%	(7,140)	(10,567)	3,427	(32.4)%
Depreciation and amortization								
Depreciation and amortization from continuing operations	37,870	34,399	3,471	10.1%	34,399	36,026	(1,627)	(4.5)%
Non-real estate depreciation	(109)	(86)	(23)	26.7%	(86)	(102)	16	(15.7)%
Allocation to participating securities [1]	(404)	(335)	(69)	20.6%	(335)	(221)	(114)	51.6%
Funds from operations attributable to common stockholders [2, 3, 4]	$ 56,070	$ 38,391	$ 17,679	46.0%	$ 38,391	$ 36,172	$ 2,219	6.1%
Basic and diluted FFO per common share	$ 1.09	$ 0.86	$ 0.23	26.7%	$ 0.86	$ 0.84	$ 0.02	2.4%
Weighted average basic and	51,357,719	44,725,936			44,725,936	42,861,276		

diluted common shares

[1] To be consistent with our policies of determining whether instruments granted in share-based payment transactions are participating securities and accounting for earnings per share, the FFO per common share is adjusted for FFO distributed through declared dividends (if any) and allocated to all participating securities (weighted average common shares outstanding and unvested restricted shares outstanding) under the two-class method. Under this method, allocations were made to 359,910, 396,855, and 403,865 of weighted average unvested restricted shares outstanding for the three months ended December 31, 2017, 2016 and 2015, respectively, and 375,924, 398,475, and 242,402 for the years ended December 31, 2017, 2016 and 2015, respectively.

[2] Includes expensed acquisition costs of approximately $0, $1.0 million and $1.1 million for the three months ended December 31, 2017, 2016 and 2015, respectively, and approximately $0, $3.1 million and $4.7 million for the years ended December 31, 2017, 2016 and 2015, respectively.

[3] Includes performance share award expense of approximately $1.1 million, $3.0 million and $2.0 million for the three months ended December 31, 2017, 2016 and 2015, respectively, and approximately $6.7 million, $7.3 million and $4.5 million for the years ended December 31, 2017, 2016 and 2015, respectively, which varies quarter to quarter based our total shareholder return outperforming the MSCI U.S. REIT Index (RMS) and the FTSE NAREIT Equity Industrial Index over the prior three year period. See Note 10 Stockholders Equity in our notes to consolidated financial statements for more information regarding our performance share awards.

[4] Includes redemption charges of approximately $1.8 million, $0, and $0 during the years ended December 31, 2017, 2016, and 2015, respectively, representing the write-off of original issuance costs related to the redemption of our Series A Preferred Stock.

We compute Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, gain on sales of real estate investments, acquisition costs and stock-based compensation. We believe that presenting Adjusted EBITDA provides useful information to investors regarding our operating performance because it is a measure of our operations on an unleveraged basis before the effects of tax, gain (loss) on sales of real estate investments, non-cash depreciation and amortization expense, acquisition costs and stock-based compensation. By excluding interest expense, Adjusted EBITDA allows investors to measure our operating performance independent of our capital structure and indebtedness and, therefore, allows for more meaningful comparison of

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our operating performance between quarters and other interim periods as well as annual periods and for the comparison of our operating performance to that of other companies, both in the real estate industry and in other industries. As we are currently in a growth phase, acquisition costs are excluded from Adjusted EBITDA to allow for the comparison of our operating performance to that of stabilized companies.

The following table reflects the calculation of Adjusted EBITDA reconciled from net income for the three months ended December 31, 2017, 2016 and 2015 and for the years ended December 31, 2017, 2016 and 2015 (dollars in thousands):

	For the Three Months Ended December 31,				For the Three Months Ended December 31,			
	2017	2016	$ Change	% Change	2016	2015	$ Change	% Change
Net income	$ 10,836	$ 1,832	$ 9,004	491.5%	$ 1,832	$ 560	$ 1,272	227.1%
Gain on sales of real estate investments	(5,105)		(5,105)	n/a		(4,248)	4,248	n/a
Depreciation and amortization from continuing operations	10,015	9,185	830	9.0%	9,185	12,065	(2,880)	(23.9)%
Interest expense, including amortization	4,691	3,642	1,049	28.8%	3,642	3,095	547	17.7%
Loss on extinguishment of debt				n/a				n/a
Stock-based compensation	1,471	3,474	(2,003)	(57.7)%	3,474	2,510	964	38.4%
Acquisition costs	(1)	990	(991)	n/a	990	1,062	(72)	(6.8)%
Adjusted EBITDA	$ 21,907	$ 19,123	$ 2,784	14.6%	$ 19,123	$ 15,044	$ 4,079	27.1%

	For the Year Ended December 31,				For the Year Ended December 31,			
	2017	2016	$ Change	% Change	2016	2015	$ Change	% Change
Net income	$ 53,095	$ 15,118	$ 37,977	251.2%	$ 15,118	$ 14,601	$ 517	3.5%
Gain on sales of real estate investments	(30,654)	(7,140)	(23,514)	329.3%	(7,140)	(10,567)	3,427	(32.4)%
Depreciation and amortization from continuing	37,870	34,399	3,471	10.1%	34,399	36,026	(1,627)	(4.5)%

operations								
Interest expense, including amortization	16,777	13,053	3,724	28.5%	13,053	9,639	3,414	35.4%
Loss on extinguishment of debt		239	(239)	n/a	239		239	n/a
Stock-based compensation	8,732	9,444	(712)	(7.5)%	9,444	6,081	3,363	55.3%
Acquisition costs	10	3,129	(3,119)	(99.7)%	3,129	4,713	(1,584)	(33.6)%
Adjusted EBITDA	$ 85,830	$ 68,242	$ 17,588	25.8%	$ 68,242	$ 60,493	$ 7,749	12.8%

We compute NOI as rental revenues, including tenant expense reimbursements, less property operating expenses. We compute same store NOI as rental revenues, including tenant expense reimbursements, less property operating expenses on a same store basis. NOI excludes depreciation, amortization, general and administrative expenses, acquisition costs and interest expense. We compute cash-basis same store NOI as same store NOI excluding straight-line rents and amortization of lease intangibles. The same store pool for the comparison of the three months and years ended December 31, 2017 and 2016 includes all properties that were owned as of December 31, 2017 and since January 1, 2016 and excludes properties that were either disposed of prior to, held for sale to a third-party or in redevelopment as of December 31, 2017. As of December 31, 2017, the same store pool consisted of 140 buildings aggregating approximately 10.2 million square feet representing approximately 78.3% of our total square feet owned and three improved land parcels containing 4.9 acres. The same store pool for the comparison of the three months and years ended December 31, 2016 and 2015 includes all properties that were owned as of December 31, 2016 and since January 1, 2015 and excludes properties that were either disposed of prior to, held for sale to a third-party or in redevelopment as of December 31, 2015. As of

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December 31, 2016, the same store pool consisted of 116 buildings aggregating approximately 8.6 million square feet representing approximately 71.9% of our total square feet owned and three improved land parcels consisting of 4.9 acres. We believe that presenting NOI, same store NOI and cash-basis same store NOI provides useful information to investors regarding the operating performance of our properties because NOI excludes certain items that are not considered to be controllable in connection with the management of the properties, such as depreciation, amortization, general and administrative expenses, acquisition costs and interest expense. By presenting same store NOI and cash-basis same store NOI, the operating results on a same store basis are directly comparable from period to period.

The following table reflects the calculation of NOI, same store NOI and cash-basis same store NOI reconciled from net income for the three months and the years ended December 31, 2017, 2016 and 2015 (dollars in thousands):

	For the Three Months Ended December 31,				For the Three Months Ended December 31,			
	2017	2016	$ Change	% Change	2016	2015	$ Change	% Change
Net income [1]	$ 10,836	$ 1,832	$ 9,004	491.5%	$ 1,832	$ 560	$ 1,272	227.1%
Depreciation and amortization from continuing operations	10,015	9,185	830	9.0%	9,185	12,065	(2,880)	(23.9)%
General and administrative	4,431	6,015	(1,584)	(26.3)%	6,015	4,747	1,268	26.7%
Acquisition costs	(1)	990	(991)	n/a	990	1,062	(72)	(6.8)%
Total other income and expenses	(508)	3,637	(4,145)	n/a	3,637	(1,157)	4,794	n/a
Net operating income	24,773	21,659	3,114	14.4%	21,659	17,277	4,382	25.4%
Less non same store NOI	(5,003)[4]	(3,004)[4]	(1,999)	66.5%	(6,218)[5]	(2,892)[5]	(3,326)	115.0%
Same store NOI [2]	$ 19,770	$ 18,655	$ 1,115	6.0%	$ 15,441	$ 14,385	$ 1,056	7.3%
Less straight-line rents and amortization of lease intangibles [3]	(507)	(1,033)	526	(50.9)%	(261)	(723)	462	(63.9)%
Cash-basis same store NOI [2]	$ 19,263	$ 17,622	$ 1,641	9.3%	$ 15,180	$ 13,662	$ 1,518	11.1%

[1] Includes approximately $0, $0 and $0.1 million of lease termination income for the three months ended December 31, 2017, 2016 and 2015, respectively, and approximately $4.0 million of depreciation expense for three months ended December 31, 2015 related to the redevelopment of the South Main property as a result of the reduction of the useful lives of the original buildings.

[2] Includes approximately $0, $0 and $0.1 million of lease termination income for the three months ended December 31, 2017, 2016 and 2015, respectively.

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

[4] Includes 2016 and 2017 acquisitions.

[5] Includes 2015 and 2016 acquisitions and one completed redevelopment property with a gross book value of approximately $40.3 million and accumulated depreciation of approximately $4.2 million as of December 31, 2016.

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	For the Year Ended December 31,				For the Year Ended December 31,			
	2017	2016	$ Change	% Change	2016	2015	$ Change	% Change
Net income [1]	$ 53,095	$ 15,118	$ 37,977	251.2%	$ 15,118	$ 14,601	$ 517	3.5%
Depreciation and amortization from continuing operations	37,870	34,399	3,471	10.1%	34,399	36,026	(1,627)	(4.5)%
General and administrative	19,681	19,319	362	1.9%	19,319	14,846	4,473	30.1%
Acquisition costs	10	3,129	(3,119)	(99.7)%	3,129	4,713	(1,584)	(33.6)%
Total other income and expenses	(14,046)	6,128	(20,174)	n/a	6,128	(946)	7,074	n/a
Net operating income	96,610	78,093	18,517	23.7%	78,093	69,240	8,853	12.8%
Less non same store NOI	(17,651)[4]	(8,102)[4]	(9,549)	117.9%	(18,460)[5]	(12,386)[5]	(6,074)	49.0%
Same store NOI [2]	$ 78,959	$ 69,991	$ 8,968	12.8%	$ 59,633	$ 56,854	$ 2,779	4.9%
Less straight-line rents and amortization of lease intangibles [3]	(2,739)	(4,564)	1,825	(40.0)%	(2,200)	(3,982)	1,782	(44.8)%
Cash-basis same store NOI [2]	$ 76,220	$ 65,427	$ 10,793	16.5%	$ 57,433	$ 52,872	$ 4,561	8.6%

1 Includes approximately $0.1 million, $0 and $0.3 million of lease termination income for the years ended December 31, 2017, 2016 and 2015, respectively and approximately $4.0 million of depreciation expense for the year ended December 31, 2015 related to the redevelopment of the South Main property as a result of the reduction of the useful lives of the original buildings.

2 Includes approximately $0.1 million, $0 and $0.2 million of lease termination income for the years ended December 31, 2017, 2016 and 2015, respectively.

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

4 Includes 2016 and 2017 acquisitions.

5 Includes 2015 and 2016 acquisitions and one completed redevelopment property with a gross book value of approximately $40.3 million and accumulated depreciation of approximately $4.2 million as of December 31, 2016.

Cash-basis same store NOI increased by approximately $10.8 million for the year ended December 31, 2017 compared to the same period from the prior year primarily due to increased rental revenue and tenant reimbursement revenue on new and renewed leases. Same store rental revenues and tenant reimbursements primarily increased due to

new leases at our V Street, Interstate 130, Hamilton, Airgate, Kent 202, and 180 Manor properties. Cash-basis same store NOI increased by approximately $1.6 million for the three months ended December 31, 2017 compared to the same period from the prior year primarily due to increased rental revenue and tenant reimbursement revenue on new and renewed leases. Same store rental revenues and tenant reimbursements primarily increased due to new leases at our V Street, Interstate 130, Hamilton, Kent 202, and 180 Manor properties. For the three months and years ended December 31, 2017 and 2016, approximately $0.3 million and $0.7 million, respectively, and approximately $1.7 million and $3.3 million, respectively, of contractual rent abatements were given to certain tenants in the same-store pool.

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

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business strategies, the primary market risk which we are exposed to is interest rate risk. We are exposed to interest rate changes primarily as a result of debt used to maintain liquidity, fund capital expenditures and expand our investment portfolio and operations. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. As described below, some of our outstanding debt bears interest at variable rates, and we expect that some of our future outstanding debt will have variable interest rates. We may use interest rate caps and/or swap agreements to manage our interest rate risks relating to our variable rate debt. We expect to replace variable rate debt on a regular basis with fixed rate, long-term debt to finance our assets and operations.

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As of December 31, 2017, we had $150.0 million of borrowings outstanding under our Facility. Of the $150.0 million outstanding on the Facility, $150.0 million is subject to interest rate caps. See Note 8 Derivative Financial Instruments in our notes to consolidated financial statements for more information regarding our interest rate caps. Amounts borrowed under our Facility bear interest at a variable rate based on LIBOR plus an applicable LIBOR margin. The weighted average interest rate on borrowings outstanding under our Facility was 2.54% as of December 31, 2017. If the LIBOR rate fluctuates by 0.25%, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows by approximately $0.4 million annually on the total of the outstanding balances on our Facility as of December 31, 2017.

Item 8. Financial Statements And Supplementary Data.

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

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

None.

Item 9A. Controls And Procedures.

Evaluation of Disclosure Controls and Procedures

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

Management s Annual Report on Internal Control Over Financial Reporting

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

Terreno Realty Corporation s management assessed the effectiveness of its internal control over financial reporting as of December 31, 2017. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013 framework).

Based on its assessment, management of Terreno Realty Corporation believes that, as of December 31, 2017, the company s internal control over financial reporting is effective based on those criteria. Terreno Realty Corporation s independent auditors have issued an audit report on the effectiveness of the company s internal control over financial reporting, as stated in their report included in this Annual Report on Form 10-K, (which expresses an unqualified opinion on the effectiveness of the company s internal control over financial reporting as of December 31, 2017).

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Terreno Realty Corporation

Opinion on Internal Control over Financial Reporting

We have audited Terreno Realty Corporation s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Terreno Realty Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and the financial statement schedule listed in the Index at Item 15 of the Company and our report dated February 7, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance

with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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

/s/ Ernst & Young LLP

San Francisco, CA

February 7, 2018

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Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2017 and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by Item 11 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2017 and is incorporated herein by reference.

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

The information required by Item 12 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2017 and is incorporated herein by reference.

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

The information required by Item 13 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2017 and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

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

December 31, 2017 and is incorporated herein by reference.

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Part IV

Item 15. Exhibits and Financial Statement Schedules.

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

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

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2017 and 2016	F-2
Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015	F-3
Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015	F-4
Consolidated Statements of Equity for the years ended December 31, 2017, 2016 and 2015	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015	F-6
Notes to Consolidated Financial Statements	F-7
Schedule III Real Estate Investments and Accumulated Depreciation	S-1

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

3. *Exhibits*

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

Item 16. Form 10-K Summary.

None.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Terreno Realty Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Terreno Realty Corporation (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and the financial statement schedule listed in the Index at Item 15 (collectively referred to as the financial statements). In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company adopted and applied the revised definition of a business which changed the treatment of acquisition costs as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2017-01 Business Combinations (Topic 805): Clarifying the Definition of Business, effective January 1, 2017.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 7, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the Company s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company s auditor since 2012.

San Francisco, California

February 7, 2018

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Terreno Realty Corporation

Consolidated Balance Sheets

(in thousands except share and per share data)

	December 31, 2017	December 31, 2016
ASSETS		
Investments in real estate		
Land	$ 759,659	$ 570,181
Buildings and improvements	801,242	710,277
Intangible assets	76,029	62,580
Total investments in properties	1,636,930	1,343,038
Accumulated depreciation and amortization	(139,814)	(109,357)
Net investments in real estate	1,497,116	1,233,681
Cash and cash equivalents	35,710	14,208
Restricted cash	7,090	4,270
Other assets, net	27,955	26,822
Total assets	$ 1,567,871	$ 1,278,981
LIABILITIES AND EQUITY		
Liabilities		
Credit facility	$	$ 51,500
Term loans payable, net	148,897	148,616
Senior unsecured notes, net	247,955	148,594
Mortgage loans payable, net	64,831	66,617
Security deposits	11,058	9,922
Intangible liabilities, net	22,361	3,485
Dividends payable	12,181	9,483
Performance share awards payable	11,824	10,739
Accounts payable and other liabilities	21,270	18,220
Total liabilities	540,377	467,176
Commitments and contingencies (Note 13)		
Equity		
Stockholders equity		
Preferred stock: $0.01 par value, 100,000,000 shares authorized, and 0 and 1,840,000 shares (liquidation preference of $25.00 per share) issued and outstanding, respectively		46,000
Common stock: $0.01 par value, 400,000,000 shares authorized, and 55,368,737 and 47,414,365 shares issued and outstanding,	553	474

respectively				
Additional paid-in capital		1,023,184		766,229
Retained earnings		4,803		
Accumulated other comprehensive loss		(1,046)		(898)
Total stockholders equity		1,027,494		811,805
Total liabilities and equity	$	1,567,871	$	1,278,981

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

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Terreno Realty Corporation

Consolidated Statements of Operations

(in thousands except share and per share data)

	For the Year Ended December 31,		
	2017	**2016**	**2015**
REVENUES			
Rental revenues	$ 103,329	$ 85,018	$ 75,899
Tenant expense reimbursements	29,155	23,400	19,996
Total revenues	132,484	108,418	95,895
COSTS AND EXPENSES			
Property operating expenses	35,874	30,325	26,655
Depreciation and amortization	37,870	34,399	36,026
General and administrative	19,681	19,319	14,846
Acquisition costs	10	3,129	4,713
Total costs and expenses	93,435	87,172	82,240
OTHER INCOME (EXPENSE)			
Interest and other income	169	24	18
Interest expense, including amortization	(16,777)	(13,053)	(9,639)
Loss on extinguishment of debt		(239)	
Gain on sales of real estate investments	30,654	7,140	10,567
Total other income and expenses	14,046	(6,128)	946
Net income	53,095	15,118	14,601
Redemption of preferred stock	(1,767)		
Preferred stock dividends	(1,961)	(3,565)	(3,565)
Net income, net of redemption of preferred stock and preferred stock dividends	49,367	11,553	11,036
Allocation to participating securities	(352)	(95)	(78)
Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends	$ 49,015	$ 11,458	$ 10,958
EARNINGS PER COMMON SHARE BASIC AND DILUTED:			

Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends	$ 0.95	$ 0.26	$ 0.26
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	51,357,719	44,725,936	42,861,276

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

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Terreno Realty Corporation

Consolidated Statements of Comprehensive Income

(in thousands)

	For the Year Ended December 31,		
	2017	**2016**	**2015**
Net income	$ 53,095	$ 15,118	$ 14,601
Other comprehensive income (loss): cash flow hedge adjustment	(148)	(102)	(649)
Comprehensive income	$ 52,947	$ 15,016	$ 13,952

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

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Terreno Realty Corporation

Consolidated Statements of Equity

(in thousands except share data)

	Preferred Stock	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as of December 31, 2014	$ 46,000	42,869,463	$ 428	$ 700,755	$	$ (147)	$ 747,036
Net income					14,601		14,601
Issuance of common stock, net of issuance costs of $69		153,044	2	3,051			3,053
Repurchase of common stock		(20,322)		(512)			(512)
Issuance of restricted stock		308,087					
Stock-based compensation				1,600			1,600
Common stock dividends				(17,446)	(11,036)		(28,482)
Preferred stock dividends					(3,565)		(3,565)
Other comprehensive loss						(649)	(649)
Balance as of December 31, 2015	46,000	43,310,272	430	687,448		(796)	733,082
Net income					15,118		15,118
Issuance of common stock, net of issuance costs of $2,813		4,139,224	44	101,417			101,461
Repurchase of common stock		(67,928)		(1,551)			(1,551)
Issuance of restricted stock		32,797					
Stock-based compensation				2,231			2,231
Common stock dividends				(23,316)	(11,553)		(34,869)
Preferred stock dividends					(3,565)		(3,565)
Other comprehensive loss						(102)	(102)

Balance as of December 31, 2016	46,000	47,414,365	474	766,229	$	$ (898)	811,805
Net income					53,095		53,095
Issuance of common stock, net of issuance costs of $4,202		8,066,150	79	256,645			256,724
Repurchase of common stock		(144,025)		(3,436)			(3,436)
Redemption of preferred stock	(46,000)			1,729	(1,767)		(46,038)
Issuance of restricted stock		32,247					
Stock-based compensation				2,017			2,017
Common stock dividends					(44,564)		(44,564)
Preferred stock dividends					(1,961)		(1,961)
Other comprehensive loss						(148)	(148)
Balance as of December 31, 2017	$	55,368,737	$ 553	$ 1,023,184	$ 4,803	$ (1,046)	$ 1,027,494

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

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Terreno Realty Corporation

Consolidated Statements of Cash Flows

(in thousands)

	For the Year Ended December 31,		
	2017	**2016**	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 53,095	$ 15,118	$ 14,601
Adjustments to reconcile net income to net cash provided by operating activities			
Straight-line rents	(3,657)	(4,740)	(3,889)
Amortization of lease intangibles	(2,161)	(1,338)	(1,925)
Depreciation and amortization	37,870	34,399	36,026
Loss on extinguishment of debt		239	
Gain on sales of real estate investments	(30,654)	(7,140)	(10,567)
Deferred financing cost and mortgage premium amortization	1,193	766	393
Stock-based compensation	8,732	9,444	6,081
Changes in assets and liabilities			
Other assets	584	(3,174)	(1,252)
Accounts payable and other liabilities	4,496	5,667	2,600
Net cash provided by operating activities	69,498	49,241	42,068
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash paid for property acquisitions	(297,109)	(128,495)	(262,979)
Proceeds from sales of real estate investments, net	75,396	21,379	23,671
Additions to construction in progress		(15,577)	(1,510)
Additions to buildings, improvements and leasing costs	(27,405)	(26,936)	(18,846)
Net cash used in investing activities	(249,118)	(149,629)	(259,664)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock	255,295	101,432	3,122
Issuance costs on issuance of common stock	(3,764)	(1,506)	(46)
Repurchase of common stock	(3,436)	(1,551)	(512)
Repurchase of preferred stock	(46,000)		
Purchase of derivative instrument			(343)
Borrowings on credit facility	93,000	95,500	
Payments on credit facility	(144,500)	(44,000)	
Payments on term loans payable		(50,000)	
Borrowings on senior unsecured notes	100,000	50,000	100,000
Payments on mortgage loans payable	(1,916)	(16,871)	(24,844)
Payment of deferred financing costs	(872)	(2,499)	(1,127)
Dividends paid to common stockholders	(41,866)	(33,182)	(27,545)

Dividends paid to preferred stockholders	(1,999)	(3,565)	(3,565)
Net cash provided by financing activities	203,942	93,758	45,140
Net increase (decrease) in cash and cash equivalents and restricted cash	24,322	(6,630)	(172,456)
Cash and cash equivalents and restricted cash at beginning of year	18,478	25,108	197,564
Cash and cash equivalents and restricted cash at end of year	$ 42,800	$ 18,478	$ 25,108
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid for interest, net of capitalized interest	$ 13,839	$ 11,888	$ 8,382
Supplemental disclosures of non-cash transactions			
Accounts payable related to capital improvements	$ 6,996	$ 7,955	$ 5,195
Redemption of preferred stock	1,729		
Reconciliation of cash paid for property acquisitions			
Acquisition of properties	$ 319,666	$ 130,944	$ 271,293
Assumption of mortgage loans payable			(4,796)
Mortgage premiums			(60)
Assumption of other assets and liabilities	(22,557)	(2,449)	(3,458)
Net cash paid for property acquisitions	$ 297,109	$ 128,495	$ 262,979

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

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Terreno Realty Corporation

Notes to Consolidated Financial Statements

Note 1. Organization

Terreno Realty Corporation (Terreno , and together with its subsidiaries, the Company) acquires, owns and operates industrial real estate in six major coastal U.S. markets: Los Angeles, Northern New Jersey/New York City, San Francisco Bay Area, Seattle, Miami, and Washington, D.C. All square feet, acres, occupancy and number of properties and improved land parcels disclosed in these notes to the consolidated financial statements are unaudited. As of December 31, 2017, the Company owned 196 buildings aggregating approximately 13.0 million square feet and ten improved land parcels consisting of approximately 47.9 acres.

The Company is an internally managed Maryland corporation and elected to be taxed as a real estate investment trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code), commencing with its taxable year ended December 31, 2010.

Note 2. Significant Accounting Policies

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

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

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

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

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

costs for acquisitions and records an intangible asset or liability accordingly.

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

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significantly longer than expected. The intended use of an asset either held for sale or held for use can significantly impact how impairment is measured. If an asset is intended to be held for the long-term, the recoverability is based on the undiscounted future cash flows. If the asset carrying value is not supported on an undiscounted future cash flow basis, then the asset carrying value is measured against the lower of cost or the present value of expected cash flows over the expected hold period. An impairment charge to earnings is recognized for the excess of the asset s carrying value over the lower of cost or the present values of expected cash flows over the expected hold period. If an asset is intended to be sold, impairment is determined using the estimated fair value less costs to sell. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions, among other things, regarding current and future economic and market conditions and the availability of capital. The Company determines the estimated fair values based on its assumptions regarding rental rates, lease-up and holding periods, as well as sales prices. When available, current market information is used to determine capitalization and rental growth rates. If available, current comparative sales values may also be used to establish fair value. When market information is not readily available, the inputs are based on the Company s understanding of market conditions and the experience of the Company s management team. Actual results could differ significantly from the Company s estimates. The discount rates used in the fair value estimates represent a rate commensurate with the indicated holding period with a premium layered on for risk. There were no impairment charges recorded during the years ended December 31, 2017, 2016 or 2015.

Property Acquisitions Effective January 1, 2017, the Company adopted Accounting Standards Update (ASU) 2017-1, *Business Combinations* (Topic 805): *Clarifying the Definition of a Business* which requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the integrated set of assets and activities is not considered a business. To be a business, the set of acquired activities and assets must include inputs and one or more substantive processes that together contribute to the ability to create outputs. The Company has determined that its real estate property acquisitions will generally be accounted for as asset acquisitions under the clarified definition. Prior to January 1, 2017 the Company generally accounted for property acquisitions as business combinations, in accordance with Accounting Standards Codification (ASC) 805, *Business Combinations*. Upon acquisition of a property the Company estimates the fair value of acquired tangible assets (consisting generally of land, buildings and improvements) and intangible assets and liabilities (consisting generally of the above and below-market leases and the origination value of all in-place leases). The Company determines fair values using Level 3 inputs such as replacement cost, estimated cash flow projections and other valuation techniques and applying appropriate discount and capitalization rates based on available market information. Mortgage loans assumed in connection with acquisitions are recorded at their fair value using current market interest rates for similar debt at the date of acquisition. Acquisition-related costs associated with asset acquisitions are capitalized to individual tangible and intangible assets and liabilities assumed on a relative fair value basis and acquisition-related costs associated with business combinations are expensed as incurred. As a result of the adoption of this standard, the Company capitalized $5.5 million in acquisition costs in 2017.

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

plus the term of any below-market fixed rate renewal options that are considered bargain renewal options of the respective leases. The total net impact to rental revenues due to the amortization of above and below-market leases was a net increase of approximately $2.2 million, $1.3 million and $1.9 million, respectively, for the years ended 2017, 2016 and 2015. The origination value of in-place leases is based on costs to execute similar leases including commissions and other

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related costs. The origination value of in-place leases also includes real estate taxes, insurance and an estimate of lost rental revenue at market rates during the estimated time required to lease up the property from vacant to the occupancy level at the date of acquisition. The remaining weighted average lease term related to these intangible assets and liabilities as of December 31, 2017 is 9.3 years. As of December 31, 2017 and 2016, the Company s intangible assets and liabilities, including properties held for sale (if any), consisted of the following (dollars in thousands):

	December 31, 2017			December 31, 2016		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
In-place leases	$ 71,502	$ (45,885)	$ 25,617	$ 58,112	$ (37,664)	$ 20,448
Above-market leases	4,527	(3,695)	832	4,468	(3,319)	1,149
Below-market leases	(30,386)	8,025	(22,361)	(9,133)	5,648	(3,485)
Total	$ 45,643	$ (41,555)	$ 4,088	$ 53,447	$ (35,335)	$ 18,112

Projected net amortization of the intangible assets and liabilities for the next five years and thereafter as of December 31, 2017 is as follows (dollars in thousands):

2018	$ 5,218
2019	3,399
2020	2,129
2021	1,446
2022	733
Thereafter	(8,837)
Total	$ 4,088

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

Description	Standard Depreciable Life
Land	Not depreciated
Building	40 years
Building Improvements	5-40 years
Tenant Improvements	Shorter of lease term or useful life
Leasing Costs	Lease term
In-place leases	Lease term

Above/Below-Market Leases	Lease term

Discontinued Operations. The Company considers a property to be classified as discontinued operations when it meets the criteria established under ASU 2014-08, *Presentation of Financial Statements* (Topic 205) and *Property, Plant and Equipment* (Topic 360), *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. Disposals that represent a strategic shift that should have or will have a major effect on the Company s operations and financial results qualify as discontinued operations.

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

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

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

The following summarizes the reconciliation of cash and cash equivalents and restricted cash as presented in the accompanying consolidated statements of cash flows:

	For the Year Ended December 31,		
	2017	**2016**	**2015**
Beginning			
Cash and cash equivalents at beginning of year	$ 14,208	$ 22,450	190,601
Restricted cash	4,270	2,658	6,963
Cash and cash equivalents and restricted cash	18,478	25,108	197,564
Ending			
Cash and cash equivalents at end of year	35,710	14,208	22,450
Restricted cash	7,090	4,270	2,658
Cash and cash equivalents and restricted cash	42,800	18,478	25,108
Net increase (decrease) in cash and cash equivalents and restricted cash	$ 24,322	$ (6,630)	(172,456)

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

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

As of December 31, 2017 and 2016, approximately $23.0 million and $21.6 million, respectively, of straight-line rent and accounts receivable, net of allowances of approximately $0.1 million and $0.4 million as of December 31, 2017 and 2016, respectively, were included as a component of other assets in the accompanying consolidated balance sheets.

Deferred Financing Costs. Costs incurred in connection with financings are capitalized and amortized to interest expense using the effective interest method over the term of the related loan. Deferred financing costs associated with the revolving credit facility are classified as an asset and deferred financing costs associated with debt liabilities are reported as a direct deduction from the carrying amount of the debt liability in the

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accompanying consolidated balance sheets. Deferred financing costs related to the revolving credit facility and debt liabilities are shown at cost, net of accumulated amortization in the aggregate of approximately $5.7 million and $4.5 million as of December 31, 2017 and 2016, respectively.

Mortgage Premiums. Mortgage premiums represent the excess of the fair value of debt assumed over the principal value of debt assumed in connection with property acquisitions. The mortgage premiums are being amortized to interest expense over the term of the related debt instrument using the effective interest method. As of December 31, 2017 and 2016, the mortgage premiums were fully amortized.

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

ASC 740-10, *Income Taxes,* provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740-10 requires the evaluation of tax positions taken in the course of preparing the Company s tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold are recorded as a tax expense in the current year. As of December 31, 2017 and 2016, the Company did not have any unrecognized tax benefits and does not believe that there will be any material changes in unrecognized tax positions over the next 12 months. The Company s tax returns are subject to examination by federal, state and local tax jurisdictions beginning with the 2010 calendar year.

On December 22, 2017, President Trump signed into law H.R. 1, informally titled the Tax Cuts and Jobs Act (the TCJA). The TCJA makes major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their stockholders. Among the changes made by the TCJA are permanently reducing the generally applicable corporate tax rate, generally reducing the tax rate applicable to individuals and other non-corporate taxpayers for tax years beginning after December 31, 2017 and before January 1, 2026, eliminating or modifying certain previously allowed deductions (including substantially limiting interest deductibility and, for individuals, the deduction for non-business state and local taxes), and, for taxable years beginning after December 31, 2017 and before January 1, 2026, providing for preferential rates of taxation through a deduction of up to 20% (subject to certain limitations) on most ordinary REIT dividends and certain trade or business income of non-corporate taxpayers. The TCJA also imposes new limitations on the deduction of net operating losses, which may result in the Company having to make additional taxable distributions to our stockholders in order to comply with REIT distribution requirements or avoid taxes on retained income and gains. The effect of the significant changes made by the TCJA is highly uncertain, and administrative guidance will be required in order to fully evaluate the effect of many provisions. As of December 31, 2017, the Company has not completed its accounting for the tax effects of enactment of the TCJA and continues to account for those items based on its existing accounting under ASC 740. The

Company is currently assessing the impact of these changes on its consolidated financial statements and notes to its consolidated financial statements.

Stock-Based Compensation and Other Long-Term Incentive Compensation. The Company follows the provisions of ASC 718, *Compensation-Stock Compensation,* to account for its stock-based compensation plan, which requires that the compensation cost relating to stock-based payment transactions be recognized in the

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

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

Use of Derivative Financial Instruments. ASC 815, *Derivatives and Hedging* (Note 8), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why the Company uses derivative instruments, (b) how the Company accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect the Company s financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company s objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments.

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

As of December 31, 2017, the Company had three interest rate caps to hedge the variable cash flows associated with its existing $150.0 million of variable-rate term loans. The caps have a notional value of $150.0 million and will effectively cap the annual interest rate at 4.0% plus 1.30% to 1.85%, depending on leverage, with respect to $50.0 million for the period from December 1, 2014 (effective date) to May 1, 2021, $50.0 million for the period from September 1, 2015 (effective date) to April 1, 2019, and $50.0 million for the period from September 1, 2015 (effective date) to February 3, 2020. The Company records all derivative instruments on a gross basis in other assets

on the accompanying consolidated balance sheets, and accordingly, there are no offsetting amounts that net assets against liabilities. As of December 31, 2017 and 2016, the fair value of the interest rate caps was approximately $30,000 and $0.3 million, respectively.

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

New Accounting Standards. In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, which created ASC Topic 606, *Revenue from Contracts with Customers,* which is their final standard on revenue from contracts with customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers. The effective date of ASU 2014-09 was deferred by the issuance of ASU 2015-14, *Revenue from Contracts with Customers* (Topic 606): *Deferral of the Effective Date,* by one year to make the guidance of ASU 2014-09 effective for annual reporting periods beginning after December 15, 2017, including interim periods therein. Early adoption is permitted but not prior to the original effective date, which was for annual reporting periods beginning after December 15, 2016. The Company will adopt the guidance effective January 1, 2018. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers* (Topic 606): *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies how to apply the implementation guidance on principal versus agent considerations related to the sale of goods or services to a customer as updated by ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers* (Topic 606): *Identifying Performance Obligations and Licensing*, which clarifies two aspects of Topic 606: (1) identifying performance obligations and (2) the licensing implementation guidance, while retaining the related principles for those areas. The effective date and transition requirements for ASU 2016-10 are the same as the effective date and transition requirements in ASU 2015-14. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers* (Topic 606): *Narrow-Scope Improvements and Practical Expedients*, which makes narrow scope amendments to Topic 606 including implementation issues on collectability, non-cash consideration and completed contracts at transition. In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which make additional narrow scope amendments to Topic 606 including loan guarantee fees, impairment testing of contract costs, provisions for losses on construction-type and production-type contracts. The FASB allows two adoption methods under ASU 2014-09. Under one method, a company will apply the rules to contracts in all reporting periods presented, subject to certain allowable exceptions. Under the other method, a company will apply the rules to all contracts existing as of January 1, 2018, recognizing in beginning retained earnings an adjustment for the cumulative effect of the change and providing additional disclosures comparing results to previous rules (modified retrospective method). The Company will adopt these updates beginning with the first quarter of its fiscal year 2018 and anticipates doing so using the modified retrospective method. The Company has completed the process to evaluate the impact of the adoption of ASU 2014-09 on historical contracts and other arrangements, including identifying potential differences that will result from applying the requirements of the new guidance. As a result of the review of revenue arrangements, the Company does not anticipate that the adoption will have a material impact on its financial position or results of operations, particularly as it relates to the amount and timing of historical real estate sales contracts and associated gain recognitions. The Company has also drafted revised accounting policies affected by the standard, assessed the redesign of internal controls, as well as evaluated the expanded disclosure requirements. The Company is also continuing to assess the potential effects that this new standard is expected to have on its consolidated financial statements as it relates to its leasing arrangements with its tenants and in concert with its assessment and anticipated adoption of the new leasing guidance under ASU 2016-02, *Leases* (see below). The Company does not expect that this

change will have a material effect on its financial position or results of operations. The Company continues to evaluate other areas of the standard and is currently assessing the impact on its consolidated financial statements and notes to its consolidated financial statements and cannot reasonably estimate quantitative information related to the impact of the new standard on its consolidated financial statements at this time.

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In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU increases transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard requires that non-lease components, such as tenant expense reimbursement revenues, be accounted for in accordance with ASU 2014-09, *Revenue from Contracts with Customers* (see above), which could change the classification and timing of its non-lease components. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those years, which for the Company would be the first quarter of 2019, and early adoption is permitted. The Company is currently assessing the potential changes to its accounting and whether such changes will have a material impact on its consolidated financial statements and notes to its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230): *Classification of Certain Cash Receipts and Cash Payments,* which provides clarified guidance on the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company is currently assessing the impact of adopting ASU 2016-15 on its consolidated financial statements and notes to its consolidated financial statements, but does not expect the adoption of ASU 2016-15 to have a material impact.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The Company elected to early adopt the provisions of ASU 2016-18 as of March 31, 2017, and has revised its consolidated statements of cash flows for the years ended December 31, 2016 and 2015 to reflect amounts described as restricted cash and restricted cash equivalents included with cash and cash equivalents in the reconciliation of beginning of year and end of year total amounts shown on the consolidated statements of cash flows. Consequently, transfers between cash and restricted cash will not be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. A reconciliation of cash and cash equivalents and restricted cash as presented on the consolidated balance sheets to the consolidated statements of cash flows is included in the significant accounting policies above.

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

Note 3. Concentration of Credit Risk

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

As of December 31, 2017, the Company owned 55 buildings aggregating approximately 3.1 million square feet and four improved land parcels consisting of approximately 23.3 acres located in Northern New Jersey/New York City, which accounted for a combined percentage of approximately 25.6% of its annualized base rent, and 35 buildings aggregating approximately 2.6 million square feet and three land parcels consisting of

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approximately 8.0 acres located in Los Angeles, which accounted for a combined percentage of approximately 18.5% of its annualized base rent. Such annualized base rent percentages are based on contractual base rent from leases in effect as of December 31, 2017, excluding any partial or full rent abatements.

Other real estate companies compete with the Company in its real estate markets. This results in competition for tenants to occupy space. The existence of competing properties could have a material impact on the Company s ability to lease space and on the level of rent that can be achieved. The Company had no tenants that accounted for greater than 10% of its rental revenues for the years ended December 31, 2017, 2016 and 2015.

Note 4. Investments in Real Estate

During the year ended December 31, 2017, the Company acquired 35 industrial buildings containing approximately 1.7 million square feet and five improved land parcels containing approximately 25.2 acres. The total aggregate initial investment, including acquisition costs, was approximately $319.7 million, of which $211.2 million was recorded to land, $92.6 million to buildings and improvements, $15.9 million to intangible assets and $21.5 million to intangible liabilities.

The following table sets forth the wholly-owned industrial properties the Company acquired during the year ended December 31, 2017:

Property Name	Location	Acquisition Date	Number of Buildings	Square Feet	Purchase Price (in thousands) [1]
Acacia	Compton, CA	January 25, 2017	1	45,776	$ 7,103
637 S. Lucile	Seattle, WA	February 3, 2017	1	45,320	7,750
Lynwood [2]	Lynwood, CA	April 20, 2017	3	477,153	31,378
West Side Ave	North Bergen, NJ	April 20, 2017	1	126,491	14,000
Hanford	Seattle, WA	April 21, 2017	1	34,983	5,940
2920 V Street	Washington, D.C.	May 10, 2017	1	21,666	3,727
Avenue A	Carlstadt, NJ	May 10, 2017	4	32,676	12,000
South Main III	Gardena, CA	June 2, 2017	1	114,061	24,700
Frelinghuysen [3]	Newark, NJ	June 29, 2017			16,250
Stockton [4]	Newark, NJ	June 30, 2017			13,200
Telegraph	Santa Fe Springs, CA	July 6, 2017	2	86,814	14,930
Dawson	Seattle, WA	July 7, 2017	1	13,176	4,000
Walnut	Compton, CA	July 21, 2017	1	57,520	9,352
NW 70th IV	Miami, FL	August 4, 2017	1	15,965	2,515
Kero Road [5]	Carlstadt, NJ	September 1, 2017	2	43,407	13,500
Hotchkiss	Fremont, CA	September 28, 2017	1	40,830	7,275
104th St	Los Angeles, CA	October 19, 2017	1	20,055	4,750
NW 94th Ave	Doral, FL	October 23, 2017	1	38,430	6,759
NW 70th V [6]	Miami, FL	October 30, 2017	1	59,400	8,400
2315 E Dominguez [7]	Los Angeles, CA	November 30, 2017			12,860

1855 W 139th St	Carson, CA	December 15, 2017	2	230,891		37,550
Hawthorne	Hawthorne, CA	December 19, 2017	8	152,025		27,600
New Dutch	Fairfield, NJ	December 20, 2017	1	50,400		7,200
Total			35	1,707,039	$	292,739

[1] Excludes intangible liabilities and assumed mortgage premiums, if any. The total aggregate investment was approximately $319.7 million, including $5.5 million in closing costs and acquisition costs.

[2] Includes approximately one million square feet of land, which is 100% ground leased on a long-term basis to two tenants, and contains two industrial distribution buildings and one rail transshipment facility.

[3] Represents an improved land parcel containing approximately 10.6 acres.

[4] Represents an improved land parcel containing approximately 7.2 acres.

[5] Also includes an improved land parcel containing approximately 1.1 acres.

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6 Also includes an improved land parcel containing approximately 0.9 acres.
7 Represents an improved land parcel containing approximately 5.4 acres.

The Company recorded revenues and net income for the year ended December 31, 2017 of approximately $7.3 million and $3.0 million, respectively, related to the 2017 acquisitions.

During year ended December 31, 2016, the Company acquired 19 industrial buildings containing approximately 853,000 square feet and two improved land parcels containing approximately 17.9 acres. The total aggregate initial investment was approximately $130.9 million, of which $65.9 million was recorded to land, $55.6 million to buildings and improvements, $9.4 million to intangible assets and $1.6 million to intangible liabilities.

The following table sets forth the wholly-owned industrial properties the Company acquired during the year ended December 31, 2016:

Property Name	Location	Acquisition Date	Number of Buildings	Square Feet	Purchase Price (in thousands) [1]
4930 3rd Avenue South	Seattle, WA	January 25, 2016	1	35,480	$ 6,500
221 Michele	South San Francisco, CA	March 4, 2016	1	30,000	5,250
12950 SW South River	Medley, FL	March 11, 2016	1	60,000	6,000
901 North [2]	Elizabeth, NJ	March 24, 2016			9,283
Lund	Auburn, WA	April 21, 2016	1	66,942	7,350
NW 70th II	Miami, FL	May 4, 2016	1	53,558	6,355
Denver	Seattle, WA	May 6, 2016	1	24,917	4,741
Wilson	Newark, NJ	June 10, 2016	1	16,600	2,500
New Ridge [3]	Hanover, MD	July 12, 2016			8,200
Hampton Overlook	Capitol Heights, MD	August 4, 2016	3	134,919	14,104
Schoolhouse	Somerset, NJ	September 1, 2016	1	86,400	9,072
709 Hindry	Inglewood, CA	September 19, 2016	1	22,190	5,150
West 140th	San Leandro, CA	October 20, 2016	2	100,494	15,875
74th North Bergen	North Bergen, NJ	November 1, 2016	1	25,041	4,750
NW 70th III	Miami, FL	November 2, 2016	1	55,000	6,100
Paterson Plank	Carlstadt, NJ	November 16, 2016	1	31,415	5,000
NW 74th	Miami, FL	December 16, 2016	1	64,575	6,288
Business Parkway	Lanham, MD	December 21, 2016	1	45,000	6,700
Total			19	852,531	$ 129,218

1 Excludes intangible liabilities and assumed mortgage premiums, if any. The total aggregate investment was approximately $130.9 million.
2 Represents an improved land parcel containing approximately 4.5 acres.
3 Represents an improved land parcel containing approximately 13.4 acres.

The Company recorded revenues and net income for the year ended December 31, 2016 of approximately $4.2 million and $1.1 million, respectively, related to the 2016 acquisitions.

The above assets and liabilities were recorded at fair value, which uses Level 3 inputs. The properties were acquired from unrelated third parties using existing cash on hand, proceeds from property sales, issuance of common stock and borrowings on the revolving credit facility. Effective January 1, 2017, the Company adopted ASU 2017-1, *Business Combinations* (Topic 805): *Clarifying the Definition of a Business* under which property acquisitions are generally accounted for as asset acquisitions resulting in the capitalization of acquisition costs as part of the purchase price of the acquisition, instead of being expensed as incurred. Prior to January 1, 2017 the Company accounted for property acquisitions as business combinations, in accordance with ASC 805, *Business Combinations,* resulting in the expense of acquisition costs as incurred.

During 2016, the Company completed redevelopment of its South Main property in Carson, California. The Company demolished three buildings totaling approximately 186,000 square feet and constructed a new front-

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load industrial distribution building containing approximately 210,000 square feet and renovated an existing approximately 34,000 square foot office building. The Company capitalized interest associated with redevelopment and expansion activities of approximately $0, $0.6 million and $0.3 million, respectively, during the years ended December 31, 2017, 2016 and 2015. The redevelopment cost was approximately $17.8 million for a total investment of approximately $39.3 million, excluding approximately $2.3 million of intangible liabilities.

Pro Forma Financial Information:

The following supplementary pro forma financial information presents the results of operations of the Company for the years ended December 31, 2017 and 2016 as if all of the Company s acquisitions during the year ended December 31, 2017 occurred on January 1, 2016. The following pro forma results for the years ended December 31, 2017 and 2016 have been presented for comparative purposes only and are not necessarily indicative of the results of operations that would have actually occurred had all transactions taken place on January 1, 2016, or of future results of operations (dollars in thousands, except per share data).

	For the Year Ended December 31,	
	2017	2016
	(Unaudited)	
Total revenues	$ 142,495	$ 125,705
Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends	52,962	18,416
Basic and diluted net income available to common stockholders per share, net of redemption of preferred stock and preferred stock dividends	$ 1.03	$ 0.41

Note 5. Held for Sale/Disposed Assets

The Company considers a property to be held for sale when it meets the criteria established under ASC 360, *Property, Plant, and Equipment*. Properties held for sale are reported at the lower of the carrying amount or fair value less estimated costs to sell and are not depreciated while they are held for sale. As of December 31, 2017, the Company did not have any properties held for sale.

During the year ended December 31, 2017 the Company sold one property located in the Los Angeles market for a sales price of approximately $25.3 million, resulting in a gain of approximately $10.1 million, and three properties in the Washington, D.C. market for an aggregate sales price of approximately $52.0 million, resulting in an aggregate gain of approximately $20.5 million. During the year ended December 31, 2016 the Company sold one property located in the San Francisco Bay Area market for a sales price of approximately $8.2 million, resulting in a gain of approximately $2.7 million, one property in the Washington, D.C. market for a sales price of approximately $8.2 million, resulting in a gain of approximately $2.5 million and one property located in the Miami market for a sales price of approximately $6.1 million, resulting in a gain of approximately $1.9 million.

Note 6. Debt

On July 14, 2017, the Company issued in a private placement $100.0 million of senior unsecured notes with a seven-year term that bear interest at a fixed annual interest rate of 3.75% and mature in July 2024 (the July 2024

Senior Unsecured Notes). Net proceeds from the issuance were used to redeem all 1,840,000 outstanding shares of 7.75% Series A Cumulative Redeemable Preferred Stock (the Series A Preferred Stock), to repay the outstanding borrowings on the Company s revolving credit facility, and for property acquisitions. As of December 31, 2017, the Company also had $50.0 million of senior unsecured notes that mature in September 2022, $50.0 million of senior unsecured notes that mature in July 2026, $50.0 million of senior unsecured notes that mature in October 2027 (collectively, with the July 2024 Senior Unsecured Notes, the Senior Unsecured Notes), and a credit facility (the Facility), which consists of a $200.0 million unsecured revolving credit

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facility that matures to August 2020, a $50.0 million term loan that matures in August 2021 and a $100.0 million term loan that matures in January 2022. As of December 31, 2017 and 2016, there was $0 and $51.5 million, respectively, of borrowings outstanding on the revolving credit facility and $150.0 million and $150.0 million, respectively, of borrowings outstanding on the term loans. As of both December 31, 2017 and 2016, the Company had three interest rate caps to hedge the variable cash flows associated with its existing $150.0 million of variable-rate term loans. See Note 8-Derivative Financial Instruments for more information regarding the Company s interest rate caps.

The aggregate amount of the Facility may be increased to a total of up to $600.0 million, subject to the approval of the administrative agent and the identification of lenders willing to make available additional amounts. Outstanding borrowings under the Facility are limited to the lesser of (i) the sum of the $150.0 million of term loans and the $200.0 million revolving credit facility, or (ii) 60.0% of the value of the unencumbered properties. Interest on the Facility, including the term loans, is generally to be paid based upon, at the Company s option, either (i) LIBOR plus the applicable LIBOR margin or (ii) the applicable base rate which is the greatest of the administrative agent s prime rate, 0.50% above the federal funds effective rate, or thirty-day LIBOR plus the applicable LIBOR margin for LIBOR rate loans under the Facility plus 1.25%. The applicable LIBOR margin will range from 1.35% to 1.90% (1.35% at December 31, 2017) for the revolving credit facility and 1.30% to 1.85% (1.30% at December 31, 2017) for the $50.0 million term loan that matures in August 2021 and the $100.0 million term loan that matures in January 2022, depending on the ratio of the Company s outstanding consolidated indebtedness to the value of the Company s consolidated gross asset value. The Facility requires quarterly payments of an annual unused facility fee in an amount equal to 0.20% or 0.25% depending on the unused portion of the Facility.

The Facility and the Senior Unsecured Notes are guaranteed by the Company and by substantially all of the current and to-be-formed subsidiaries of the borrower that own an unencumbered property. The Facility and the Senior Unsecured Notes are unsecured by the Company s properties or by interests in the subsidiaries that hold such properties. The Facility and the Senior Unsecured Notes include a series of financial and other covenants with which the Company must comply. The Company was in compliance with the covenants under the Facility and the Senior Unsecured Notes as of December 31, 2017 and 2016.

The Company has mortgage loans payable which are collateralized by certain of the properties and require monthly interest and principal payments until maturity and are generally non-recourse. The mortgage loans mature between 2019 and 2021. As of December 31, 2017, the Company had three mortgage loans payable, net of deferred financing costs, totaling approximately $64.8 million, which bear interest at a weighted average fixed annual rate of 4.0%. As of December 31, 2016, the Company had four mortgage loans payable, net of deferred financing costs, totaling approximately $66.6 million, which bore interest at a weighted average fixed annual interest rate of 4.0%. As of December 31, 2017 and 2016, the total gross book value of the properties securing the debt was approximately $153.7 million and $163.1 million, respectively.

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The scheduled principal payments of the Company s debt as of December 31, 2017 were as follows (dollars in thousands):

	Credit Facility	Term Loans	Senior Unsecured Notes	Mortgage Loans Payable	Total Debt
2018	$	$	$	$ 1,910	$ 1,910
2019				18,805	18,805
2020				33,077	33,077
2021		50,000		11,271	61,271
2022		100,000	50,000		150,000
Thereafter			200,000		200,000
Subtotal		150,000	250,000	65,063	465,063
Unamortized net premiums					
Total Debt		150,000	250,000	65,063	465,063
Deferred financing costs, net		(1,103)	(2,045)	(232)	(3,380)
Total Debt, net	$	$ 148,897	$ 247,955	$ 64,831	$ 461,683
Weighted Average Interest Rate	n/a	2.5%	4.1%	4.0%	3.6%

Note 7. Leasing

The following is a schedule of minimum future cash rentals on tenant operating leases in effect as of December 31, 2017. The schedule does not reflect future rental revenues from the renewal or replacement of existing leases and excludes property operating expense reimbursements (dollars in thousands):

2018	$ 103,924
2019	91,512
2020	79,283
2021	65,128
2022	49,378
Thereafter	130,454
Total	$ 519,679

Note 8. Derivative Financial Instruments

Risk Management Objective of Using Derivatives

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

Derivative Instruments

The Company s objectives in using interest rate derivatives are to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest

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

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

As of December 31, 2017 and 2016, the Company had three interest rate caps to hedge the variable cash flows associated with its existing $150.0 million of variable-rate term loans. The caps have a notional value of $150.0 million and will effectively cap the annual interest rate payable at 4.0% plus 1.30% to 1.85%, depending on leverage, with respect to $50.0 million for the period from December 1, 2014 (effective date) to May 1, 2021, $50.0 million for the period from September 1, 2015 (effective date) to April 1, 2019 and $50.0 million for the period from September 1, 2015 (effective date) to February 3, 2020. The Company is required to make certain monthly variable rate payments on the term loans, while the applicable counterparty is obligated to make certain monthly floating rate payments based on LIBOR to the Company in the event LIBOR is greater than 4.0%, referencing the same notional amount.

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

	Effective Date	Maturity Date	Interest Rate Strike	Fair Value December 31, 2017	Fair Value December 31, 2016	Notional Amount December 31, 2017	Notional Amount December 31, 2016
Derivative Instrument Assets:							
Interest Rate Cap	12/1/2014	5/1/2021	4.0%	$ 26	$ 204	$ 50,000	$ 50,000
Interest Rate Cap	9/1/2015	4/1/2019	4.0%	1	14	50,000	50,000
Interest Rate Cap	9/1/2015	2/3/2020	4.0%	3	63	50,000	50,000
Total				$ 30	$ 281	$ 150,000	$ 150,000

The effective portion of changes in the fair value of derivatives designated and qualified as cash flow hedges is recorded in AOCI and will be reclassified to interest expense in the period that the hedged forecasted transaction affects earnings on the Company s variable rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings into interest expense.

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The following table presents the effect of the Company s derivative financial instruments on its accompanying consolidated statements of operations for years ended December 31, 2017 and 2016 (in thousands):

	For the Year Ended December 31,		
	2017	2016	2015
Interest rate caps in cash flow hedging relationships:			
Amount of gain recognized in AOCI on derivatives (effective portion)	$ 103	$	$
Amount of gain reclassified from AOCI into interest expense (effective portion)	$ 103	$	$

The Company estimates that approximately $0.3 million will be reclassified from AOCI as an increase to interest expense over the next twelve months.

Note 9. Fair Value Measurements

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

Recurring Measurements Interest Rate Contracts

Fair Value of Interest Rate Caps

Currently, the Company uses interest rate cap agreements to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. As of December 31, 2017 and 2016, the Company applied the provisions of this standard to the valuation of its interest rate caps.

The following sets forth the Company s financial instruments that are accounted for at fair value on a recurring basis as of December 31, 2017 and 2016 (dollars in thousands):

		Fair Value Measurement Using		
	Total Fair Value	Quoted Price in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Interest rate caps at:				
December 31, 2017	$ 30	$	$ 30	$
December 31, 2016	$ 281	$	$ 281	$

Financial Instruments Disclosed at Fair Value

As of December 31, 2017 and 2016, the fair values of cash and cash equivalents, accounts receivable, and accounts payable approximated their carrying values because of the short-term nature of these investments or liabilities based on Level 1 inputs. The fair values of the Company s derivative instruments were evaluated based on Level 2 inputs. The fair values of the Company s mortgage loans payable and Senior Unsecured Notes were estimated by calculating the present value of principal and interest payments, based on borrowing rates available to the Company, which are Level 2 inputs, adjusted with a credit spread, as applicable, and assuming the loans are outstanding through maturity. The fair value of the Company s Facility approximated its carrying value because the variable interest rates approximate market borrowing rates available to the Company, which are Level 2 inputs.

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The following table sets forth the carrying value and the estimated fair value of the Company s debt as of December 31, 2017 and 2016 (dollars in thousands):

	Total Fair Value	Fair Value Measurement Using Quoted Price in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value
Liabilities					
Debt at:					
December 31, 2017	$ 459,048	$	$ 459,048	$	$ 461,683
December 31, 2016	$ 417,219	$	$ 417,219	$	$ 415,327

Note 10. Stockholders Equity

The Company s authorized capital stock consists of 400,000,000 shares of common stock, $0.01 par value per share, and 100,000,000 shares of preferred stock, $0.01 par value per share. The Company has an at-the-market equity offering program (the $200 Million ATM Program) pursuant to which the Company may issue and sell shares of its common stock having an aggregate offering price of up to $200.0 million in amounts and at times to be determined by the Company from time to time. Prior to the implementation of the $200 Million ATM Program, the Company had a $150.0 million ATM program (the $150 Million ATM Program), which was fully utilized as of June 30, 2017, and a $100.0 million ATM program (the $100 Million ATM Program), which was fully utilized as of December 31, 2016. Actual sales under the $200 Million ATM Program, if any, will depend on a variety of factors to be determined by the Company from time to time, including, among others, market conditions, the trading price of the Company s common stock, determinations by the Company of the appropriate sources of funding for the Company and potential uses of funding available to the Company. The Company intends to use the net proceeds from the offering of the shares under the $200 Million ATM Program, if any, for general corporate purposes, which may include future acquisitions and repayment of indebtedness, including borrowings under the Facility. During the year ended December 31, 2017, the Company issued an aggregate of 7,859,929 shares of common stock at a weighted average offering price of $32.48 per share under the $200 Million ATM Program and the $150 Million ATM Program, resulting in net proceeds of approximately $251.6 million and paying total compensation to the applicable sales agents of approximately $3.7 million. During the year ended December 31, 2016, the Company issued an aggregate of 3,991,830 shares of common stock at a weighted average offering price of $25.39 per share under the $100 Million ATM Program, resulting in net proceeds of approximately $99.9 million and paying total compensation to the applicable sales agents of approximately $1.5 million. As of December 31, 2017 and 2016, the Company had shares of common stock having an aggregate offering price of up to $90.1 million available for issuance under the $200 Million ATM Program and $145.5 million available for issuance under the $150 Million ATM Program, respectively.

The Company has a share repurchase program authorizing the Company to repurchase up to 2,000,000 shares of its outstanding common stock from time to time through December 31, 2018. Purchases made pursuant to the program will be made in either the open market or in privately negotiated transactions as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal

requirements and other factors. The program may be suspended or discontinued at any time. As of December 31, 2017 the Company has not repurchased any shares of stock pursuant to its share repurchase authorization.

In connection with the annual meeting of stockholders on May 2, 2017, the Company granted a total of 10,988 shares of unrestricted common stock to its independent directors under the Company s Amended and Restated 2010 Equity Incentive Plan with a grant date fair value per share of $30.95. The grant date fair value of the

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unrestricted common stock was determined using the closing price of the Company s common stock on the date of the grant. The Company recognized approximately $0.3 million in compensation costs for the year ended December 31, 2017 related to this issuance.

As of December 31, 2017 and 2016, respectively, 0 and 1,840,000 shares of Series A Preferred Stock were issued and outstanding.

On July 19, 2017, the Company redeemed all 1,840,000 outstanding shares of the Series A Preferred Stock for cash at a redemption price of $25.00 per share, plus an amount per share of $0.096875 representing all accrued and unpaid dividends per share from July 1, 2017 to, but excluding, July 19, 2017. The Company recognized a charge of approximately $1.8 million during the year ended December 31, 2017 representing the write-off of original issuance costs related to the redemption of the Series A Preferred Stock.

As of December 31, 2017, there were 1,705,000 shares of common stock authorized for issuance as restricted stock grants, unrestricted stock awards or Performance Share awards under the Company s Amended and Restated 2010 Equity Incentive Plan (the Plan), of which 595,024 were remaining and available for issuance. The grant date fair value per share of restricted stock awards issued during the period from February 16, 2010 (commencement of operations) to December 31, 2017 ranged from $14.20 to $26.52. The fair value of the restricted stock that was granted during the year ended December 31, 2017 was approximately $0.9 million and the vesting period for the restricted stock is five years. As of December 31, 2017, the Company had approximately $4.7 million of total unrecognized compensation costs related to restricted stock issuances, which is expected to be recognized over a remaining weighted average period of approximately 2.8 years. The Company recognized compensation costs of approximately $1.7 million, $1.9 million and $1.3 million, respectively, for the years ended December 31, 2017, 2016 and 2015 related to the restricted stock issuances.

The following is a summary of the total restricted shares granted to the Company s executive officers and employees with the related weighted average grant date fair value share prices for the years ended December 31, 2017, 2016 and 2015.

Restricted Stock Activity:

	Shares	Weighted Average Grant Date Fair Value
Non-vested shares outstanding as of December 31, 2014	156,488	$ 17.45
Granted	308,087	20.97
Forfeited	(20,322)	17.33
Vested	(40,785)	18.13
Non-vested shares outstanding as of December 31, 2015	403,468	20.08
Granted	32,797	21.50
Forfeited	(16,489)	17.53

Vested	(24,495)		17.26
Non-vested shares outstanding as of December 31, 2016	395,281		20.48
Granted	32,247		26.52
Forfeited	(50,008)		21.60
Vested	(20,337)		18.06
Non-vested shares outstanding as of December 31, 2017	357,183	$	21.01

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The following is a vesting schedule of the total non-vested shares of restricted stock outstanding as of December 31, 2016:

Non-vested Shares Vesting Schedule	Number of Shares
2018	27,168
2019	18,966
2020	298,028
2021	8,350
2022	4,671
Thereafter	
Total Non-vested Shares	357,183

Long-Term Incentive Plan:

As of December 31, 2017, there are three open performance measurement periods for the Performance Share awards: January 1, 2015 to December 31, 2017, January 1, 2016 to December 31, 2018 and January 1, 2017 to December 31, 2019. During the year ended December 31, 2017, the Company issued 195,233 shares of common stock at a price of $28.84 per share related to the Performance Share awards for the performance period from January 1, 2014 to December 31, 2016. The Company recorded compensation expense of approximately $6.7 million, $7.3 million and $4.5 million, respectively, for the years ended December 31, 2017, 2016 and 2015, related to the Performance Share awards. As of December 31, 2017, 2016 and 2015 approximately $11.8 million, $10.7 million, and $6.4 million respectively, of compensation costs related to the Performance Share awards were accrued.

The following table summarizes certain information with respect to the Performance Share awards (dollars in thousands):

Performance Share Period		Fair Value December 31, 2017	Accrual December 31, 2017	Expense For the Year Ended December 31, 2017	2016	2015
January 1, 2017	December 31, 2019	$ 4,596	$ 1,532	$ 1,532	$	$
January 1, 2016	December 31, 2018	5,175	3,452	2,189	1,262	
January 1, 2015	December 31, 2017	6,840	6,840	2,994	2,589	1,257
January 1, 2014	December 31, 2016				3,471	1,463
January 1, 2013	December 31, 2015					1,761
Total		$ 16,611	$ 11,824	$ 6,715	$ 7,322	$ 4,481

[1] Subsequent to December 31, 2017, the compensation committee determined that approximately $6.8 million was earned under the Long-Term Incentive Plan with respect to the performance period that ended on December 31, 2017 and a total of 195,963 shares of common stock were issued to the executives.

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Dividends:

The following table sets forth the cash dividends paid or payable per share during the years ended December 31, 2017 and 2016:

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2017	Common stock	$ 0.200000	February 7, 2017	March 28, 2017	April 12, 2017
March 31, 2017	Preferred stock	$ 0.484375	February 7, 2017	March 10, 2017	March 31, 2017
June 30, 2017	Common stock	$ 0.200000	May 2, 2017	July 7, 2017	July 21, 2017
June 30, 2017	Preferred stock	$ 0.484375	May 2, 2017	June 9, 2017	June 30, 2017
September 30, 2017	Common stock	$ 0.220000	August 1, 2017	October 6, 2017	October 21, 2017
December 31, 2017	Common stock	$ 0.220000	October 31, 2017	December 29, 2017	January 12, 2018

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2016	Common stock	$ 0.180000	February 9, 2016	March 28, 2016	April 12, 2016
March 31, 2016	Preferred stock	$ 0.484375	February 9, 2016	March 10, 2016	March 31, 2016
June 30, 2016	Common stock	$ 0.180000	May 3, 2016	July 7, 2016	July 21, 2016
June 30, 2016	Preferred stock	$ 0.484375	May 3, 2016	June 10, 2016	June 30, 2016
September 30, 2016	Common stock	$ 0.200000	July 26, 2016	October 7, 2016	October 21, 2016
September 30, 2016	Preferred stock	$ 0.484375	July 26, 2016	September 9, 2016	September 30, 2016
December 31, 2016	Common stock	$ 0.200000	November 1, 2016	December 30, 2016	January 13, 2017
December 31, 2016	Preferred stock	$ 0.484375	November 1, 2016	December 9, 2016	December 30, 2016

On July 19, 2017, the Company redeemed all 1,840,000 outstanding shares of the Series A Preferred Stock for cash at a redemption price of $25.00 per share, plus an amount per share of $0.096875 representing all accrued and unpaid dividends per share from July 1, 2017 to, but excluding, July 19, 2017.

Note 11. Net Income (Loss) Per Share

Pursuant to ASC 260-10-45, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The two-class method of computing earnings per share allocates earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. The Company s non-vested shares of restricted stock are considered participating securities since these share-based awards contain non-forfeitable rights to dividends irrespective of whether the awards ultimately vest or expire. The Company had no dilutive restricted stock awards outstanding for the years ended December 31, 2017, 2016 and 2015.

In accordance with the Company s policies of determining whether instruments granted in share-based payment transactions are participating securities and accounting for earnings per share, the net income (loss) per common share is adjusted for earnings distributed through declared dividends (if any) and allocated to all participating securities (weighted average common shares outstanding and unvested restricted shares outstanding) under the two-class method. Under this method, allocations were made to 357,183, 398,475 and 242,402 of weighted average unvested restricted shares outstanding for the years ended December 31, 2017, 2016 and 2015, respectively.

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Note 12. Quarterly Results of Operations Unaudited

The following tables summarize the Company s quarterly financial information.

	2017 Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except share and per share data)			
Total revenues	$ 31,441	$ 32,778	$ 33,640	$ 34,625
Total costs and expenses	(21,911)	(23,568)	(23,659)	(24,297)
Total other income and (expenses)	(3,731)	6,317	10,952	508
Net income	5,799	15,527	20,933	10,836
Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends	$ 4,874	$ 14,529	$ 18,852	$ 10,761
Earnings per Common Share Basic and Diluted:				
Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends [1]	$ 0.10	$ 0.29	$ 0.36	$ 0.20
Basic and Diluted Weighted Average Common Shares Outstanding	47,645,321	50,325,668	52,804,611	54,563,353

	2016 Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except share and per share data)			
Total revenues	$ 25,657	$ 25,817	$ 27,104	$ 29,840
Total costs and expenses	(20,415)	(19,964)	(22,422)	(24,371)
Total other income and (expenses)	2,191	(3,070)	(1,612)	(3,637)
Net income	7,433	2,783	3,070	1,832
Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends	$ 6,484	$ 1,877	$ 2,161	$ 936
Earnings per Common Share Basic and Diluted:				
Net income available to common stockholders, net of redemption of	$ 0.15	$ 0.04	$ 0.05	$ 0.02

preferred stock and preferred stock dividends [1]				
Basic and Diluted Weighted Average Common Shares Outstanding	42,995,106	43,839,910	45,762,761	46,277,521

[1] The above quarterly income per share calculations are based on the weighted average number of common shares outstanding during each quarter. The income per share calculation for the years ended December 31, 2017 and 2016 in the consolidated statements of operations is based on the weighted average number of common shares outstanding for the years ended December 31, 2017 and 2016. The sum of the quarterly financial data may vary from the years ended December 31, 2017 and 2016 data due to rounding.

Note 13. Commitments and Contingencies

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

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

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

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

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

As a result, the Company may become subject to material environmental liabilities of which it is unaware. The Company can make no assurances that (1) future laws or regulations will not impose material environmental liabilities on it, or (2) the environmental condition of the Company s industrial properties will not be affected by the condition of the properties in the vicinity of its industrial properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to the Company. The Company was not aware of any significant or material exposures as of December 31, 2017 or 2016.

General Uninsured Losses. The Company carries property and rental loss, liability and terrorism insurance. The Company believes that the policy terms, conditions, limits and deductibles are adequate and appropriate under the circumstances, given the relative risk of loss, the cost of such coverage and current industry practice. In addition, the Company s properties are located, or may in the future be located, in areas that are subject to earthquake and flood activity. As a result, the Company has obtained, as applicable, limited earthquake and flood insurance on those properties. There are, however, certain types of extraordinary losses, such as those due to acts of war that may be either uninsurable or not economically insurable. Although the Company has obtained coverage for certain acts of terrorism, with policy specifications and insured limits that it believes are commercially reasonable, there can be no assurance that the Company will be able to collect under such policies. Should an uninsured loss occur, the Company could lose its investment in, and anticipated profits and cash flows from, a property. The Company was not aware of

any significant or material exposures as of December 31, 2017 and 2016.

Contractual Commitments. As of February 7, 2018, the Company had three outstanding contracts with third-party sellers to acquire three industrial properties consisting of approximately 526,000 square feet. There is no assurance that the Company will acquire the properties under contract because the proposed acquisitions are

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subject to the completion of satisfactory due diligence and various closing conditions. The following table summarizes certain information with respect to the properties the Company has under contract:

Market	Number of Buildings	Square Feet	Purchase Price (in thousands)	Assumed Debt (in thousands)
Los Angeles				$
Northern New Jersey/New York City	1	83,294	25,170	
San Francisco Bay Area				
Seattle	2	442,720	67,410	
Miami				
Washington, D.C.				
Total	3	526,014	$ 92,580	$

As of February 7, 2018, the Company has two outstanding contracts with third-party purchasers to sell two properties consisting of three buildings for an aggregate sales price of approximately $39.3 million (aggregate net book value of approximately $29.4 million). There is no assurance the Company will sell the properties under contract because the proposed dispositions are subject to the purchaser s completion of satisfactory due diligence and various closing conditions.

Note 14. Subsequent Events

On January 31, 2018, the Company acquired one industrial building located in Torrance, CA containing approximately 100,000 square feet for a total purchase price of approximately $17.5 million. The property was acquired from an unrelated third-party using existing cash on hand.

On February 6, 2018, the Company s board of directors declared a cash dividend in the amount of $0.22 per share of its common stock payable on April 12, 2018 to the stockholders of record as of the close of business on March 28, 2018.

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Terreno Realty Corporation

Schedule III

Real Estate Investments and Accumulated Depreciation

As of December 31, 2017

(in thousands)

y Name	No. of Bldgs.	Location	Encumbrances	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount Carried at December 31, 2017			Accumulated Depreciation	Year Acquired	Y Cons
				Land	Buildings & Improvements		Land	Buildings & Improvements	Total			
geles												
reet	1	Los Angeles, CA	$	$ 3,701	$ 976	$	$ 3,701	$ 976	$ 4,677	$ 5	2017	
reet	2	Carson, CA		21,236	15,783		21,236	15,783	37,019	17	2017	196
sgow	1	Inglewood, CA	2,165	2,245	1,855	385	2,245	2,240	4,485	501	2011	
sgow	1	Inglewood, CA		1,759	1,555	205	1,759	1,760	3,519	216	2014	
alnut	1	Compton, CA		6,130	2,522	10	6,130	2,532	8,662	32	2017	196
Miller	1	Fontana, CA		8,695	12,945	8	8,695	12,953	21,648	1,042	2014	
ay	1	Gardena, CA		4,757	1,243	974	4,757	2,217	6,974	597	2013	
Hamilton	1	Torrance, CA		7,409	4,072	671	7,409	4,743	12,152	734	2011	
dry	1	Inglewood, CA		2,105	2,972	32	2,105	3,004	5,109	104	2016	
	1	Compton, CA		5,143	1,985	625	5,143	2,610	7,753	120	2017	
ia	1	Corona, CA		3,225	4,416	464	3,225	4,880	8,105	474	2014	
uez		Los Angeles, CA		11,370	1,535		11,370	1,535	12,905	8	2017	
	5	Commerce, CA	22,723	27,539	22,694	3,347	27,539	26,041	53,580	5,127	2012	
rne	8	Hawthorne, CA		17,226	10,069		17,226	10,069	27,295	11	2017	195
manas	1	Compton, CA		3,330	751	208	3,330	959	4,289	148	2014	
d	3	Lynwood, CA		43,885			43,885		43,885		2017	
an	1	Redondo Beach, CA		7,874	5,641	340	7,874	5,981	13,855	906	2012	196
Main	2	Carson, CA		16,371	7,045	17,028	16,371	24,073	40,444	4,932	2012/2014	
Main III	1	Gardena, CA		11,521	12,467		11,521	12,467	23,988	181	2017	
oh	2	Santa Fe Springs, CA		7,063	7,236	62	7,063	7,298	14,361	87	2017	
n New												
rk City												
Drive	1	West Caldwell, NJ		3,819	2,982	1,439	3,819	4,421	8,240	901	2013	

son	1	Fairfield, NJ	974	1,647	468	974	2,115	3,089	370	2013
ki	1	Bayonne, NJ	4,003	4,946	1,134	4,003	6,080	10,083	742	2014
son	1	Fairfield, NJ	1,365	1,607	104	1,365	1,711	3,076	112	2015
	2	Carlstadt, NJ	10,343	3,876	141	10,343	4,017	14,360	43	2017
rth										
	1	North Bergen, NJ	2,933	1,817	353	2,933	2,170	5,103	71	2016
hele	1	Carlstadt, NJ	2,372	4,798	485	2,372	5,283	7,655	628	2013
uysen		Newark, NJ	16,728		629	16,728	629	17,357		2017
dow	1	Carlstadt, NJ	713	1,618	229	713	1,847	2,560	223	2013

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y Name	No. of Bldgs.	Location	Encumbrances	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount Carried at December 31, 2017			Accumulated Depreciation	Year Acquired	Y Cons
				Land	Buildings & Improvements		Land	Buildings & Improvements	Total			
ancy	1	Newark, NJ		9,230	4,855	1,053	9,230	5,908	15,138	656	2013	
ision	1	Elizabeth, NJ	5,910	6,491	3,568	2,995	6,491	6,563	13,054	1,983	2011	
est Side	1	North Bergen, NJ		4,525	8,856		4,525	8,856	13,381	161	2017	
t	1	Piscataway, NJ		3,202	3,866	887	3,202	4,753	7,955	620	2014	
th		Elizabeth, NJ		8,035	913	822	8,035	1,735	9,770	145	2016	
A	4	Carlstadt, NJ		7,516	4,660	262	7,516	4,922	12,438	102	2017	195
le	1	Kearny, NJ	12,570	12,845	18,041	1,323	12,845	19,364	32,209	3,174	2011	
	1	Carlstadt, NJ		6,641	771	170	6,641	941	7,582	150	2011	
	2	Piscataway, NJ		2,748	3,801	1,217	2,748	5,018	7,766	743	2013	198
e	2	South Brunswick, NJ		13,686	12,135	10,286	13,686	22,421	36,107	3,796	2010/2013	199
gate	4	Queens, NY		18,282	32,933	3,893	18,282	36,826	55,108	4,383	2013	198
	1	East Rutherford, NJ		4,076	5,262	1,685	4,076	6,947	11,023	411	2015	
Lane	3	East Hanover, NJ		5,931	13,178	1,894	5,931	15,072	21,003	2,059	2013	198
rook	18	Bound Brook, NJ		16,442	10,241	10,254	16,442	20,495	36,937	5,696	2010	195
tch	1	Fairfield, NJ		4,773	2,004		4,773	2,004	6,777	3	2017	
Plank	1	Carlstadt, NJ		4,127	455	118	4,127	573	4,700	21	2016	
ouse	1	Somerset, NJ		2,375	5,705		2,375	5,705	8,080	195	2016	
n		Newark, NJ		12,327	1,282	222	12,327	1,504	13,831	45	2017	
l Way	2	Avenel, NJ		3,537	3,598	38	3,537	3,636	7,173	294	2014	195
	1	Newark, NJ		2,016	484	776	2,016	1,260	3,276	84	2016	
ncisco ea												
ce	2	South San Francisco, CA		6,674	2,655	1,111	6,674	3,766	10,440	1,014	2010	
lefield	1	South San Francisco, CA		5,107	3,293	2,852	5,107	6,145	11,252	661	2013	
vrence	1	South San Francisco, CA		1,352	1,198	416	1,352	1,614	2,966	477	2010	
nnan	1	San Jose, CA		1,932	2,245	503	1,932	2,748	4,680	535	2012	
	2	Union City, CA	3,124	3,246	2,749	665	3,246	3,414	6,660	854	2010	
I	1	Union City, CA		2,467	4,527	201	2,467	4,728	7,195	388	2015	
ghs	3	San Leandro, CA		5,400	7,092	659	5,400	7,751	13,151	770	2014	
an	3	Sunnyvale, CA		17,483	14,493	1,721	17,483	16,214	33,697	2,634	2012	198
Court	1	South San Francisco, CA		2,036	1,475	162	2,036	1,637	3,673	296	2012	
r	1	Hayward, CA	4,308	5,964	1,159	23	5,964	1,182	7,146	178	2011	
ss	1	Fremont, CA		4,163	3,152	419	4,163	3,571	7,734	25	2017	
hele	1	South San Francisco, CA		2,710	2,540	132	2,710	2,672	5,382	148	2016	
0th	2	San Leandro, CA		9,578	6,297	3,617	9,578	9,914	19,492	269	2016	
Pacific s Park I	3	Union City, CA		8,468	14,165	678	8,468	14,843	23,311	1,297	2014	
Pacific s Park II	4	Union City, CA		13,642	23,658	5,132	13,642	28,790	42,432	2,001	2015	

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Property Name	No. of Bldgs.	Location	Encumbrances	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount Carried at December 31, 2017			Accumulated Depreciation	Year Acquired	Year Constructed
				Land	Buildings & Improvements		Land	Buildings & Improvements	Total			
Seattle												
79 Ave South	1	Kent, WA		1,267	1,503	380	1,267	1,883	3,150	277	2014	2000
3401 Lind	1	Renton, WA		2,999	6,707	383	2,999	7,090	10,089	568	2014	1984/2012
4225 2nd Avenue	1	Seattle, WA		4,236	4,049	2,009	4,236	6,058	10,294	359	2015	1957
4930 3rd Avenue South	1	Seattle, WA		3,984	2,424	12	3,984	2,436	6,420	121	2016	1964
17600 West Valley Highway	1	Tukwila, WA		3,361	5,260	960	3,361	6,220	9,581	1,121	2012	1986
Auburn 1307	1	Auburn, WA		4,253	5,034	181	4,253	5,215	9,468	507	2014	2002
Dawson	1	Seattle, WA		3,902	278		3,902	278	4,180	4	2017	1964
Denver	1	Seattle, WA		3,203	1,345	480	3,203	1,825	5,028	71	2016	1953
Hanford	1	Seattle, WA		3,821	2,250	215	3,821	2,465	6,286	43	2017	1952
Kent 188	1	Kent, WA	4,757	3,251	4,719	1,248	3,251	5,967	9,218	1,337	2010	1979
Kent 190	1	Kent, WA		4,560	5,561	271	4,560	5,832	10,392	426	2015	1992/1999
Kent 202	1	Kent, WA		5,761	9,114	2,806	5,761	11,920	17,681	644	2015	1981
Kent 216	1	Kent, WA		3,672	5,408	299	3,672	5,707	9,379	693	2014	1996
Kent Corporate Park	4	Kent, WA		5,032	6,916	1,164	5,032	8,080	13,112	644	2015	1980/1981
Lucile	1	Seattle, WA		4,498	3,504	1,334	4,498	4,838	9,336	126	2017	1976
Lund	1	Auburn, WA		2,573	4,399	56	2,573	4,455	7,028	214	2016	1999
Olympic	1	Tukwila, WA		1,499	1,431	491	1,499	1,922	3,421	189	2015	1978
SeaTac 8th Avenue	1	Burien, WA		2,501	4,020	491	2,501	4,511	7,012	751	2013	1988
SW 34th	1	Renton, WA		2,912	3,289	478	2,912	3,767	6,679	360	2014	1996/2010
Valley Corporate	2	Kent, WA	7,713	5,264	9,096	1,279	5,264	10,375	15,639	1,745	2011	1987
Miami												
10th Avenue	1	Hialeah, FL		6,376	2,624	2,884	6,376	5,508	11,884	1,648	2010	1957/2005
25th Street	1	Doral, FL		4,454	4,889	68	4,454	4,957	9,411	395	2015	1974
26th Street	2	Miami, FL		4,569	6,183	46	4,569	6,229	10,798	876	2012	1973
48th Avenue	2	Miami Gardens, FL		4,322	2,187	372	4,322	2,559	6,881	395	2011	1987
60th Avenue	1	Miami Lakes, FL		6,203	1,567	6,582	6,203	8,149	14,352	2,292	2010	1971/2011
70th Avenue	1	Miami, FL		1,434	2,333	198	1,434	2,531	3,965	440	2011	1999
70th Avenue II	1	Miami, FL		2,152	3,418	33	2,152	3,451	5,603	142	2016	1969
70th Avenue III	1	Miami, FL		2,543	3,167		2,543	3,167	5,710	91	2016	1974
70th Avenue IV	1	Miami, FL		1,119	1,456		1,119	1,456	2,575	14	2017	1969
70th Avenue V	1	Miami, FL		5,036	3,419	10	5,036	3,429	8,465	19	2017	1974
74th Avenue	1	Miami, FL		2,327	3,538	293	2,327	3,831	6,158	99	2016	1986
78th Avenue	1	Doral, FL		2,445	1,755	1,913	2,445	3,668	6,113	755	2012	1977
81st Street	2	Medley, FL		2,938	5,242	776	2,938	6,018	8,956	569	2015	1996/2003

94th Avenue	1	Doral, FL		3,000	3,580	40	3,000	3,620	6,620	19	2017	1989
107th Avenue	1	Medley, FL	1,793	2,787	2,036	491	2,787	2,527	5,314	392	2013	2001
101st Road	1	Medley, FL		2,647	3,258	161	2,647	3,419	6,066	467	2013	2012

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ne	No. of Bldgs.	Location	Encumbrances	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount Carried at December 31, 2017			Accumulated Depreciation	Year Acquir
				Land	Buildings & Improvements		Land	Buildings & Improvements	Total		
	1	Medley, FL		2,903	5,729	430	2,903	6,159	9,062	568	2014
	1	Medley, FL		1,971	4,029	400	1,971	4,429	6,400	219	2016
	6	Doral, FL		11,152	11,721	2,174	11,152	13,895	25,047	2,044	2013
	4	Medley, FL		5,063	10,958	654	5,063	11,612	16,675	799	2015
	5	Landover, MD		10,658	18,615	2,931	10,658	21,546	32,204	1,944	2014
	1	Washington, D.C.		2,248	1,670	987	2,248	2,657	4,905	28	2017
	1	Landover, MD		2,331	4,375	499	2,331	4,874	7,205	582	2013
	1	Lanham, MD		1,736	2,395	372	1,736	2,767	4,503	287	2013
	1	Jessup, MD		2,263	3,200	765	2,263	3,965	6,228	407	2013
	1	Annapolis Junction, MD		3,538	6,670	2,638	3,538	9,308	12,846	1,004	2015
	1	Lanham, MD		3,038	3,007		3,038	3,007	6,045	90	2016
	1	Capitol Heights, MD		5,095	11,672	830	5,095	12,502	17,597	1,198	2014
	3	Capitol Heights, MD		4,602	7,521	328	4,602	7,849	12,451	334	2016
	1	Annapolis Junction, MD		2,526	10,419	236	2,526	10,655	13,181	873	2014
		Hanover, MD		5,689	1,567		5,689	1,567	7,256	74	2016
	1	Hanover, MD		4,543	12,094	193	4,543	12,287	16,830	1,299	2014
	1	Elkridge, MD		1,409	5,033	60	1,409	5,093	6,502	812	2012
	6	Washington, D.C.		67,132	41,299	6,522	67,132	47,821	114,953	4,259	2015
	196		65,063	759,659	667,292	133,950	759,659	801,242	1,560,901	90,234	
et											
et											
s			(232)								
ts									76,029	49,580	
	196		$ 64,831	$ 759,659	$ 667,292	$ 133,950	$ 759,659	$ 801,242	$ 1,636,930	$ 139,814	

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Terreno Realty Corporation

Schedule III

Real Estate Investments and Accumulated Depreciation (Continued)

As of December 31, 2017

(in thousands)

A summary of activity for real estate and accumulated depreciation for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Investment in Properties		
Balance at beginning of year	$ 1,343,038	$ 1,179,920
Acquisition of properties	319,666	130,944
Disposition of properties	(49,471)	(10,520)
Construction in progress		22,475
Properties held for sale		
Improvements, net of write-offs	23,697	20,219
Balance at end of year	$ 1,636,930	$ 1,343,038

	2017	2016
Accumulated Depreciation		
Balance at beginning of year	$ 109,357	$ 77,641
Amortization of lease intangible assets	8,597	9,388
Depreciation expense	27,241	23,053
Accumulated depreciation on properties held for sale		
Disposition of properties and write-offs	(5,381)	(725)
Balance at end of year	$ 139,814	$ 109,357

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Exhibit Index

Exhibit Number	Exhibit Description
3.1	Articles of Amendment and Restatement of Registrant, as amended (previously filed as Exhibit 3.1 to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
3.2	Articles Supplementary for Registrant s 7.75% Series A Cumulative Redeemable Preferred Stock (previously filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K on July 19, 2012 and incorporated herein by reference).
3.3	Articles Supplementary (previously filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K on February 9, 2017 and incorporated herein by reference).
3.4	Amended and Restated Bylaws of Registrant (previously filed as Exhibit 3.2 to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
3.5	First Amendment to Amended and Restated Bylaws of Registrant (previously filed as Exhibit 3.2 to the Registrant s Current Report on Form 8-K on February 9, 2017 and incorporated herein by reference).
4.1	Specimen Common Stock Certificate of Registrant (previously filed as Exhibit 4.1 to Amendment No. 3 to the Registrant s Registration Statement on Form S-11 on January 15, 2010 and incorporated herein by reference).
10.1+	Amended and Restated Severance Agreement between Registrant and W. Blake Baird, dated as of February 18, 2014 (previously filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K on February 19, 2014 and incorporated herein by reference).
10.2+	Amended and Restated Severance Agreement between Registrant and Michael A. Coke dated as of February 18, 2014 (previously filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K on February 19, 2014 and incorporated herein by reference).
10.3+	Severance Agreement between Registrant and Jaime J. Cannon dated as of February 18, 2014 (previously filed as Exhibit 10.3 to the Registrant s Current Report on Form 8-K on February 19, 2014 and incorporated herein by reference).
10.4+	Amended and Restated 2010 Equity Incentive Plan of Registrant (previously filed as Appendix A to the Registrant s Definitive Proxy Statement on Schedule 14A on March 19, 2014 and incorporated herein by reference).
10.5+	Form of Restricted Stock Award Agreement for Executive Officers and Employees (previously filed as Exhibit 10.4 to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
10.6+	Form of Restricted Stock Award Agreement for Non-Employee Directors (previously filed as Exhibit 10.5 to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 on January 6, 2010

	and incorporated herein by reference).
10.7+	Form of Indemnification Agreement between Registrant and its Directors and Executive Officers (previously filed as Exhibit 10.6 to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
10.8+	Amended and Restated Long-Term Incentive Plan of Registrant (previously filed as Exhibit 10.4 to the Registrant s Current Report on Form 8-K on February 19, 2014 and incorporated by reference herein).
10.9+	Form of Award Notice under the Long-Term Incentive Plan of Registrant (previously filed as Exhibit 10.8 to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).

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10.10	Fourth Amended and Restated Senior Credit Agreement, dated as of August 1, 2016, among Terreno Realty LLC, KeyBank National Association, both individually as a Lender and as Administrative Agent , MUFG Union Bank, N.A., PNC Capital Markets LLC and Regions Capital Markets as joint lead arrangers and the several banks, financial institutions and other entities which may from time to time become parties as additional Lenders (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on August 2, 2016 and incorporated herein by reference).
10.11	Note Purchase Agreement, dated as of June 7, 2017, among Terreno Realty LLC and the institutions named in Schedule B thereto as purchasers (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on June 12, 2017 and incorporated herein by reference).
10.12	Note Purchase Agreement, dated as of June 2, 2016, among Terreno Realty LLC and the institutions named in Schedule B thereto as purchasers (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on June 7, 2016 and incorporated herein by reference).
10.13	Note Purchase Agreement, dated as of September 1, 2015, among Terreno Realty LLC and the institutions named in Schedule B thereto as purchasers (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on September 8, 2015 and incorporated herein by reference).
10.14+	Severance Agreement between the Company and Andrew T. Burke, dated as of February 18, 2014 (previously filed as Exhibit 10.13 to the Company s Annual Report on Form 10-K on February 8, 2017 and incorporated herein by reference).
10.15+	Severance Agreement between the Company and John T. Meyer, dated as of February 18, 2014 (previously filed as Exhibit 10.14 to the Company s Annual Report on Form 10-K on February 8, 2017 and incorporated herein by reference).
12.1*	Statement of Computation of Ratios.
21*	Subsidiaries of Registrant.
23*	Consent of Independent Registered Public Accounting Firm.
24.1*	Power of Attorney (included on the signature page to this Annual Report on Form 10-K).
31.1*	Certification of Chief Executive Officer, pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer, pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3*	Certification of President, pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3**	Certification of President, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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The following materials from Terreno Realty Corporation s Annual Report on Form 10-K for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows, (vi) Notes to Consolidated Financial Statements and (vii) Schedule III-Real Estate Investments and Accumulated Depreciation.

* Filed herewith.
** Furnished herewith.
\+ Exhibit is a management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Francisco, State of California, on February 7, 2018.

Terreno Realty Corporation

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

Power of Attorney

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

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

Signature	Title	Date
/s/ W. Blake Baird W. Blake Baird	Chairman, Chief Executive Officer and Director (principal executive officer)	February 7, 2018
/s/ Michael A. Coke Michael A. Coke	President and Director	February 7, 2018
/s/ Jaime J. Cannon Jaime J. Cannon	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	February 7, 2018

/s/ LeRoy E. Carlson	Director	February 7, 2018
LeRoy E. Carlson		
/s/ Peter J. Merlone	Director	February 7, 2018
Peter J. Merlone		
/s/ Douglas M. Pasquale	Director	February 7, 2018
Douglas M. Pasquale		
/s/ Dennis Polk	Director	February 7, 2018
Dennis Polk		