Terreno Realty Corporation (TRNO)

Updated February 20th, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	7.8%	**Market Cap:**	$6.7 B
Fair Value Price:	$58	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	03/27/25
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	04/04/25
Dividend Yield:	2.9%	**5 Year Price Target**	$85	**Years Of Dividend Growth:**	13
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Terreno Realty Corporation specializes in acquiring, owning, and operating industrial real estate in key coastal markets across the United States, including Los Angeles, Northern New Jersey/New York City, San Francisco Bay Area, Seattle, Miami, and Washington, D.C. Its portfolio includes various types of industrial properties such as warehouse/distribution, flex, transshipment, and improved land. Today, Terreno owns 299 buildings totaling about 19.3 million square feet, 47 improved land parcels covering 150.6 acres, and had ten properties under development or redevelopment, along with about 22.4 acres of land earmarked for future development. Terreno is based in Bellevue, Washington.

On February 5th, 2025, Terreno Realty Corporation reported its Q4 and full-year results for the period ending December 31st, 2024. Revenues grew by 19.9% compared to the same period last year, reaching $103.7 million. This increase in revenues can be primarily attributed to increased revenue from new and renewed leases, as well as property acquisitions during the past four quarters.

Cash rents on new and renewed leases starting during the quarter increased by about 26.7%, covering about 0.7 million square feet. Tenant retention for the quarter stood at 82.4% for the operating portfolio. Portfolio occupancy at the end of the quarter was 97.4%, while same-store occupancy stood at 98.3%.

While property expenses did grow, and Terreno did issue shares to partially fund the property acquisitions that took place over the past four quarters, the company's strong revenue growth drove notable FFO/share growth. In particular, Terreno posted basic FFO/share of $0.62 for the quarter up from last year's FFO/share of $0.58. For the year, FFO/share was $2.43. Based on Terreno's current portfolio and leasing profile, we project FFO/share of $2.64 for this year, implying year-over-year growth of 8.2%.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$0.84	$0.86	$1.09	$1.30	$1.39	$1.45	$1.71	$2.00	$2.23	$2.43	***$2.63***	***$3.86***
DPS	$0.66	$0.76	$0.84	$0.92	$1.02	$1.12	$1.26	$1.48	$1.70	$1.88	***$1.96***	***$2.88***
Shares[1]	42.9	44.7	51.4	57.5	64.4	67.8	70.5	75.5	83.2	95.5	***99.5***	***110.0***

Terreno Realty Corporation strategically positions itself in submarkets experiencing specific supply dynamics, such as Washington, D.C., where there has been approximately a 27.3% decrease in industrial supply since 1994, coupled with an average annual increase in rental rates of 14%. This shrinking supply scenario is nice example of Terreno's overall focus on markets with constrained industrial inventory. This is where the company usually finds opportunities to convert existing buildings into higher and better uses over time, while also supporting rental rate growth.

More specifically, about 38% of its portfolio is located in shrinking supply submarkets, marked by diminishing industrial inventory. Furthermore, 43% of its portfolio operates in submarkets with no net new supply, featuring older industrial properties ripe for redevelopment into modern facilities, typically within infill areas. Finally, around 19% of Terreno's portfolio is located in new supply submarkets, where industrial buildings are expected to maintain their current state, often with available undeveloped land for future industrial expansion.

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[1] In millions

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We believe this well-thought-out focus on property investing provides an edge for the company, which is why expect above-average FFO/share and DPS growth rates of 8% over the medium-term. This is modestly humbler estimate from its historical average to account for elevated interest rates that could hamper the company's growth.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/FFO	25.1	27.6	28.3	28.0	32.0	37.7	37.1	33.0	26.7	25.1	***25.5***	***22.0***
Avg. Yld.	3.1%	3.2%	2.7%	2.5%	2.3%	2.0%	2.0%	2.2%	2.9%	3.1%	***2.9%***	***3.4%***

Terreno Realty has historically traded at a premium valuation due consistently posting industry-beating growth in its key financial metrics. Despite interest rates pressuring most equities these days, particularly REITs, the stock's P/FFO is now hovering at about 25.5 times this year's expected FFO/share. With interest rates remaining particularly elevated, we don't exclude the possibility of multiple compression to a more reasonable 22 times FFO/share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

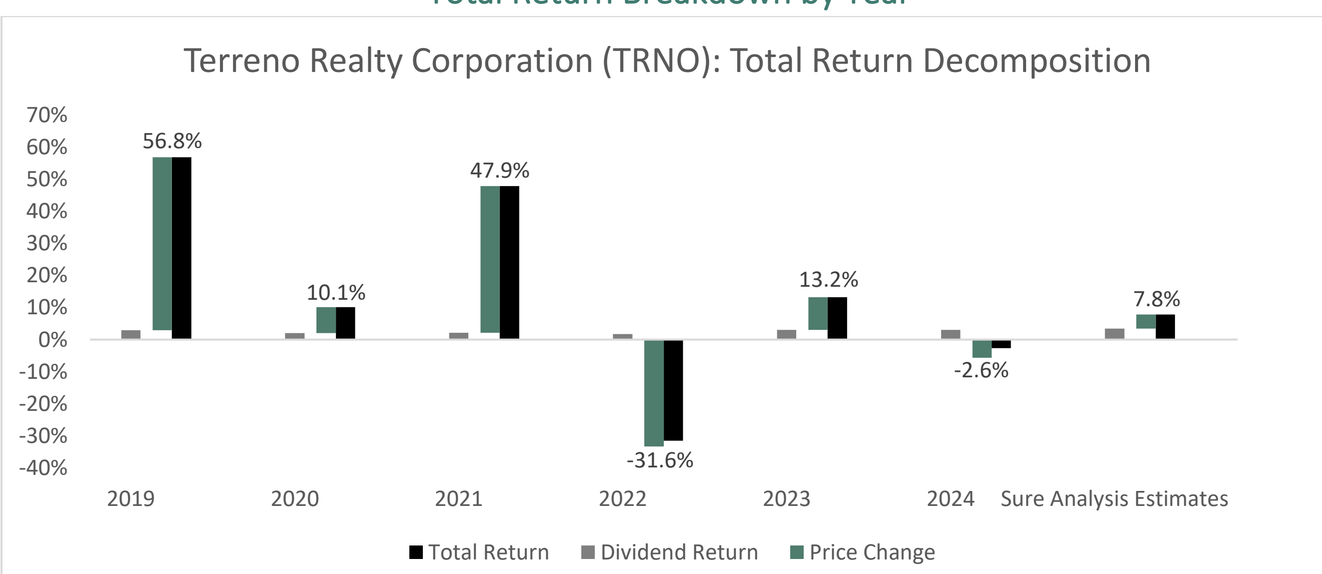
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	79%	88%	77%	71%	73%	77%	74%	74%	76%	77%	***75%***	***75%***

Terreno Realty Corporation's properties offer strategic advantages, with prime locations in major coastal U.S. markets and functional designs tailored to tenant needs. Its wide tenant base of nearly 600 tenants ensures stable occupancy rates, while proactive property management maintains high standards and tenant satisfaction. Additionally, properties in shrinking supply submarkets present opportunities for value enhancement through redevelopment, giving Terreno an edge against some of its industry peers. It's also worth noting that the remaining weighted average lease term of its property portfolio stands 4.1 years, providing a nice mix of cash flow visibility and renewal opportunities. As an industrial REIT, it is not immune to recessions, nevertheless.

Final Thoughts & Recommendation

Terreno Realty has historically achieved industry-beating returns, marked by industry-leading growth metrics over the years. We believe that its ongoing momentum will persist moving forward backed by a proven strategy in the areas it operates. Nevertheless, interest rates could hamper the stock's total returns prospects both growth-wise and valuation-wise. We project annualized returns of 7.8% based on our current estimates. Therefore, Terreno earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	69	96	108	132	152	171	187	222	276	324
Gross Profit	50	69	78	97	112	127	138	166	207	245
Gross Margin	72.2%	72.2%	72.0%	72.9%	73.6%	74.2%	73.7%	74.7%	75.1%	75.6%
SG&A Exp.	9	15	19	20	22	24	23	27	31	38
D&A Exp.	18	34	33	36	37	39	40	43	49	59
Operating Profit	21	18	24	39	49	59	68	88	110	133
Operating Margin	30.6%	19.2%	22.5%	29.5%	32.5%	34.4%	36.6%	39.7%	40.0%	41.2%
Net Profit	11	15	15	53	63	56	80	87	198	151
Net Margin	15.6%	15.2%	13.9%	40.1%	41.7%	32.5%	42.7%	39.3%	71.7%	46.8%
Free Cash Flow	10	23	22	42	49	63	69	81	77	127

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,075	1,152	1,279	1,568	1,797	2,108	2,140	2,924	3,164	3,905
Cash & Equivalents	191	22	14	36	31	110	107	204	26	165
Goodwill	43	55	63	76	79	89	89	103	112	133
Total Liabilities	328	419	467	540	549	591	552	866	935	990
Accounts Payable	9	12	18	21	25	28	27	45	50	62
Long-Term Debt	302	381	415	462	462	492	459	721	771	772
Shareholder's Equity	701	687	766	1,027	1,248	1,517	1,588	2,058	2,230	2,915
LTD/E Ratio	0.40	0.52	0.51	0.45	0.37	0.32	0.29	0.35	0.35	0.26

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.2%	1.3%	1.2%	3.7%	3.8%	2.8%	3.8%	3.4%	6.5%	4.3%
Return on Equity	1.8%	2.0%	2.0%	5.8%	5.6%	4.0%	5.1%	4.8%	9.2%	5.9%
ROIC	1.3%	1.3%	1.3%	3.9%	4.0%	3.0%	3.9%	3.6%	6.9%	4.5%
Shares Out.	30.4	42.9	44.7	51.4	57.5	64.4	67.8	70.5	75.5	83.2
Revenue/Share	2.26	2.24	2.42	2.58	2.64	2.64	2.74	3.13	3.65	3.88
FCF/Share	0.32	0.54	0.50	0.82	0.85	0.97	1.02	1.14	1.01	1.52

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.