

Q+A: Virtus' Josh Will has his eyes set on a \$250m portfolio – and soon

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The REIT, which looks outside primary markets, has several acquisitions in the pipeline



As far as Canadian real estate investment trusts go, Virtus Diversified REIT is one of the newer kids on the block.

Having formed in late 2019 and acquiring its first property in 2020, the firm debuted in one the most tumultuous markets in history. But Virtus, which focuses on secondary and tertiary markets in Canada and the U.S., made it through and steadily has added to its portfolio. In June, it [made its largest purchase](#): a \$24.4m apartment building in Sudbury, Ont.

Green Street News spoke with Virtus president Josh Will about finding the REIT's footing, executing its investment thesis and hitting a quarter-billion-dollar portfolio by yearend.

Why focus on secondary and tertiary markets? What opportunities are you seeing there?

It's a question we get often from the Bay Street financial advisors: "Why are you raising money from my investors and then deploying it in these small-cap markets like Sudbury or Parry Sound?" Well, if

you look at the competitors that we have in this space – the other big real estate managers – they’re managing large buildings in very commercial metro areas. For us, in order to be competitive and get the yield that we require for our shareholders, historically we need to drive to that affordability and that has always been in the secondary and tertiary areas for us.

Ultimately, why we’re there is we can get ideal cap rates and long-term tenants. I happen to be from a small town myself – Aylmer, Ont. – and I can tell you the Joe’s No Frills is still there in the same location that I grew up going to as a kid, so they tend to be very sticky tenants in those areas. The way our model works is based on buy, hold and get the tenants to pay the yield. So, if we don’t have to do a lot of changeover, it’s good for us, and we tend to see that more in the secondary and tertiary markets.

Having launched at the end of 2019, what was that experience like starting off in a volatile market?

Let’s just say it was one step forward, 10 steps back for the first couple of years. We put our fund together in December of that year, and it took us three months to get it filed, build our marketing materials, and then we booked this big restaurant to have a presentation for Friday, March 20, 2020. We had 100 people confirmed to start our capital-raising efforts, and as we all well know, March 17 was when everything got put on hold. So in terms of getting off the ground running, we were at an absolute standstill.

In 2021, we started to raise money. We bought a few small sites, but then through 2022 and 2023, things went crazy in the real estate market – it was ferocious. We couldn’t get good cap rates; we couldn’t make investors money with some of the sites that we were looking at. We did pick up a couple of smaller assets – \$5m, \$7m buys – but it was very hard for me being on the capital-raising side and working with some Schedule I banks and the nonbank-owned brokerages trying to raise capital, but I had nothing to buy, so we didn’t raise any money. We had to sit there on our hands and wait for the market to cool and find those opportunities.



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And it was in 2023 that you began raising money?

Yes, in 2023 we got our Fundserv codes and hired an investment fund manager and started to look at the prospect of raising capital through the [Investment Industry Regulatory Organization of Canada]

channel – now they call it the [Canadian Investment Regulatory Organization]. We're still raising capital through the private markets here in Canada, but we're not one of those evergreen-type funds where we're constantly raising \$10m, \$20m, \$30m every month. It's "Hey, we have an asset. We want to go buy it. Let's open up the door to allow new capital to come in," because the last thing we want to do is sit on dry powder because that just erodes investor return.

But now that pendulum has shifted where I could raise \$30m to \$50m a month and put it out, because there are that many deals out there. You're going to start to hear more from us in the coming months as we ramp up our acquisitions

Having a diversified portfolio, what has your investment thesis been? Is there anything across the board that you're looking for when considering buying a property?

That's really what our secret sauce is for advisors and investors and shareholders alike that are looking to get involved with us as an asset manager for their investment funds. We are very much yield-driven. We want to see good tenants and good cashflow coming through the door so that we can pay our investors a steady coupon on a monthly basis.

There are certain things that we can't control – I don't know if retail is going to be really hot next year, I don't know if resi is going to be really hot next year. What I do know is that whatever tenant base I have is going to require that real estate for something. If it's resi, they need to live there. If it's retail, well, that's where they run their business, so they require it. I don't know if the values are going to change a lot year over year, but what I want to mandate for my shareholders is that I'm going to give them a rate of return on a monthly basis, which is coming in from the cashflow from the rent rolls.



Virtus acquired 323 Second Avenue North in Sudbury, Ont., in June

Are there any asset classes you're not interested in investing in?

We're wary of office. Regardless of where you are, if you're in one of those suburban offices or if you're downtown in one of the metropolitan areas, we're still seeing a lot of vacancies down there. In our portfolio, we do have one office tenant, and that is up in Timmins, Ont., where our tenant there is a crown corporation – Canada Pension Plan – and in a small town like that, the deal was very good for us. It's been performing well, and they just re-upped their lease to 2031, so we're very bullish on that one site.

How much capital are you looking to deploy this year, and what factors will that be dependent on?

I can tell you right out of the gate, it's going to be dependent on our ability to raise capital through our advisor network. We're actively looking to get more approvals for our investment product so that we can raise more money, but it's going to be very much chicken and egg. If I've got the deals lined up, we're going to go very active and get very creative with how we can find the equity required to close on those deals.

To answer it succinctly, I'd love to see us raise \$50m over the next year – we could deploy that very quickly. We have \$116m in deals lined up right now – a couple in London, one in Hamilton, one in Niagara, and we are about to go firm on an apartment building in Moncton. The more money we raise, the more stuff we could buy. The people that are selling in this market typically need to, so cash

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is king and we're able to get better deals.

Who are your investors?

So far, it's been all Canadians and all accredited investors. Think of your million-dollar-liquidity-type individual, that's our standard investor. And we're just starting to get going. We're at 300 investors right now, our AUM is about \$140m, and with these new acquisitions, that'll push us over \$250m, and hopefully we'll close by the end of end of October. We're starting to work with a lot of portfolio managers and investment advisors at the various banks down on Bay Street and, candidly, that's where we want to stay. We don't really have an interest in raising money internationally right now. We're a Canadian-owned and -operated firm. We'd love to raise money from our people here.

Your portfolio has national tenants such as Walmart and Dollarama. How important is that in secondary markets where you can't get the same rent per sq ft as in major markets?

We really like the Class-A tenant in those areas – the Walmarts, Loblaws, etc. The thing that we like about that is when you see those large multinational firms like a Walmart coming into a sector, they've done their research, they've made an investment of time and capital into that area, so it gives us peace of mind and makes our management a lot easier. We have a Walmart in Flin Flon, MB. – have you ever been to Flin Flon? It's a bit of a trek, so if we had to get out there and see that site a couple of times a year, we would need to get a very high cap rate in order to make it worth our time. So those

Class-A single tenants – like the Walmarts, Loblaws, McDonald's of the world – are very easy for us to manage,

What is the next milestone in terms of portfolio value for Virtus?

You know, it's been a grind the last five years. We're eager to build this thing, but one of the things that's kept us in check is our patience, and I think that if we raised a lot of money and bought a lot of stuff these past five years, I don't think we'd be in the opportune position that we are right now. I think that we are the next big thing in private real estate, and we have a very compelling story for portfolio managers and investment advisors. With a fresh NAV, our mandates align with theirs. We want to make the return charts go from the bottom left to the top right.

I think our next big milestone in terms of AUM is \$250m. Being at a quarter of a billion [dollars] would be a dream come true because I think from \$250m, that's going to take us to \$500m relatively quickly and start to attract a lot of investment capital, which would allow us to execute on our thesis. I'd love to see us get approved at one of the Schedule I banks – we're very keen on having them as an investment partner. Those are the two big things that are on the radar.