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New builds pitched as fix for price pain

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In a year when the housing market is struggling with affordability, home prices in Denver and some other Colorado areas are actually climbing again — at least marginally. *Note*



And some real estate agents don't expect that price picture to get much better for buyers. But it's also a time when homebuilders are reaching out for buyers in Denver and Colorado Springs, anxious to convey that new communities may offer prices substantially below the median prices buyers are seeing in resale homes around the metro area.

Builders also have the financial muscle to buy down interest rates for their buyers, an added way to bring down monthly payments regardless of price.

Resale prices of condominiums showed the biggest drop in Colorado over the past year, reflecting that buyers are skittish about purchasing with rising insurance costs and other issues condo associations face. *Note*

Condo and townhome prices fell 5% or more over the year and have lost value for four years, according to statewide Realtor data. *Note*

But studies show that younger buyers overwhelmingly prefer single-family homes — ones with two-car garages and private yards for kids and dogs to play in — to condos. *Note*

Single-family home prices have lost very little or flatlined over the past year.

In the 11-county Denver metro area, the median close-price of a single-family home stood at \$663,000 in April — just \$2,000 less than a year ago, according to the Denver Metro Association of Realtors.

However, builders in the Denver area can deliver a starter single-family home at prices way below that. In some instances, those prices can match the resale costs of typical condos and townhomes.

And new homes often come with community centers and other amenities that some older houses lack.

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There is a tradeoff for buyers — they typically have to drive farther to outlying areas, where builders show their newest communities. For buyers who work remotely or in offices outside the city center, that factor may be less important.

“I don’t think most buyers understand the significant difference in buying power they have with a new community,” said Ryan Delp, Colorado division president of Oakwood Homes, the state’s third-largest builder.

He added that builders’ purchasing power in buying down interest rates further amplifies any price advantage new homes already offer.

“People are still searching for price point, but they should be searching for a monthly payment,” Delp said in an interview with The Denver Gazette. “It’s the monthly they are worried about.”

Builder salespeople said the buyers they see at their communities are often those who already put extra value on the newness itself — getting newer kitchens, baths, HVAC and other building systems, and of avoiding some maintenance costs.

But builders also may offer in-house financing that can be well below the 6%-plus rates that buyers are facing now for 30-year loans on the mortgage market.

At its Percheron community in northeast Colorado Springs, Lennar Homes sold 10 single-family homes over the past month.

Sales agent Ed Hickok said interest rates were the driving force behind that.

Currently, Hickok has a 3.99% fixedrate loan, not a buy-down or other variable rate, available on some quick delivery homes at Percheron.

That includes a single-family “Navigator” three-bedroom, two-1/2 bath design with a two-car garage. The home is priced at \$398,900, around \$50,000 below that median-priced single-family home in Colorado Springs, according to Colorado Association of Realtors data.

Below-rate offers like that are conditional and are often packaged with specific inventory homes that a builder has set to deliver.

However, they can be a strong motivator for buyers like Jeremy and Annie, who declined to offer a last name, who recently toured Lennar’s Percheron community.

‘Housing is definitely way more up here’

When the couple moved to the Springs from St. Louis, they each found their salary situation had improved. But housing in Colorado, they said, costs considerably more.

“It’s more expensive; I have this conversation a lot with my family,” said Annie. “It’s like, from a general cost of living standpoint, almost everything’s the same (here) except housing. Housing is definitely way more up here. If we were to look at a new building in the St. Louis area, you’re talking at least \$75,000 less, easily. But everything else, it’s pretty darn comparable.”

Another couple, who also declined to offer names, said they were just beginning to look for a home to buy after moving into the area three years ago and recently marrying. They were attracted, in part, because the community wasn’t far from Schriever Space Force Base, where he was weighing a job.

“It’ll be a better commute; it’s closer,” he said.

“For now, we’re just looking at new builds,” he added. “We haven’t really looked at recently built or resale houses yet.”

Would a lower interest rate make a difference?

“Probably,” he said.

“I mean, it’s all six-point-something percent, so I don’t think that’s going to drop soon,” the buyer added. “So, it’s either — if we wait, it’s just hoping for it to drop, whereas we could find (a home) and then probably eventually refinance if necessary.”

Oakwood’s Delp noted that builders also offer some variable rates, including a 5-1 adjustable-rate mortgage, or ARM, in which a buyer would find payments computed at a lower rate for the first five years. The risk is that if rates remain high for ensuing years, too high to refinance, the loan will adjust to a higher rate and monthly payments would follow suit.

That happened prominently during the 2008 market meltdown, when ARMs and other adjustable rates were credited with creating widespread foreclosures in following years.

But Delp said such loans available now often include rate caps that limit the damage if a buyer stays in the loan for a longer period.

Meanwhile, prices by Oakwood, Lennar, and other builders at new home areas along the Aerotropolis corridor near Denver International Airport can be well below the median single-family price in Denver. Earlier this month, Oakwood launched 75 homes at Sky Ranch in Aurora, off Interstate 70 at Watkins, 3 miles east of E470. Single-family homes there start from the high \$400,000s for Oakwood’s Brio collection single-families, sized from just under 2,000 square feet.

Buyers can also see models for an Arrival series, from the high \$300,000s. Those are still single-family homes, from 1,238 square feet to just under 2,000 square feet, but on higher density sites. Both series offer yard space and include a two-car garage.

Delp said that Oakwood is also building a “Duet” series plan at some communities, with paired-home architecture that keeps the price lower.

Oakwood also offers products for price conscious older buyers, who have stalled on moving from their decades-old two-story homes that no longer work well for their way of life.

Interest rates are doubly important to that downsizing buyer, said Oakwood’s Kevin Sorensen, who handles the builders’ age-55-plus ranch sales at Green Valley Ranch in Aurora. Owners often have interest rates on their current mortgages with twos and threes in front of them, making it tempting to stay put, even if a home’s design no longer fits their needs.

“My read is people in this age group don’t have to buy a home; very few people do,” Sorensen said. “So, if things are scary, market’s bouncing all over, oil is double, gas is double, they just sit.”

Sorensen added: “Approximately 50%, at least 40% of our buyers are from out of state. They’re coming in because their kids are here or the grandkids are here.”

Without being tied to an interest rate, the pricing of a new home becomes key.

“I came from Chicago, where 3,200 square feet is worth \$500,000,” Sorensen said. “And here, 1,300 square feet is worth \$500,000. So, for a lot of buyers, it’s just not possible.”

However, Oakwood can deliver a single-family plan in The Reserve at Green Valley Ranch from around \$450,000, Sorensen said. And some “spec” homes that are near-complete, waiting in inventory, could be priced well below that.

“This is a buyer’s market,” Sorensen added. “Interest rates are up, but if you can get a house for a hundred thousand or even \$30,000 less than the sticker price, in five years you can lower your interest rate.”

In Colorado Springs, Hickok said that, as with other builders, buyers at Lennar may find some plans that are priced below the advertised pricing for the collection.

“They have a starting price, and they will often discount under that,” he said.

There’s another advantage of spec inventory homes in addition to price, Hickok, the sales agent, noted. Homes built as specs typically have some finishes that include not just the builder’s standard features, but also some extras that most buyers would opt to include anyway, such as a countertop upgrade, a fridge and air conditioning.

Oakwood’s Delp said the builder is continually looking for locations closer in, to offer affordability in more expensive parts of the area, mentioning Broomfield, Brighton and Aurora’s Murphy Creek as possibilities. He added that he and other builders are focused on impact fees that drive up new home prices even in outlying jurisdictions.

“When it’s \$80,000 or \$90,000 just to put a shovel in the dirt, that makes it difficult to create an affordable home,” he said.