

NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3  
Form N-Q  
September 28, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-10345

**Nuveen Dividend Advantage Municipal Fund 3**

(Exact name of registrant as specified in charter)

**333 West Wacker Drive, Chicago, Illinois 60606**

(Address of principal executive offices) (Zip code)

**Jessica R. Droeger Vice President and Secretary**

**333 West Wacker Drive, Chicago, Illinois 60606**

(Name and address of agent for service)

Registrant's telephone number, including area code: 312-917-7700

Date of fiscal year end: 10/31

Date of reporting period: 7/31/06

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

**Item 1. Schedule of Investments**

**Portfolio of Investments (Unaudited)**

**Nuveen Dividend Advantage Municipal Fund 3 (NZF)**

*July 31, 2006*

<b>Principal</b>	<b>Optional C</b>
<b>Amount (000) Description (1)</b>	<b>Provisions</b>

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**Alabama ☐ 0.9% (0.6% of Total Investments)**

\$	5,655	Alabama State Port Authority, Revenue Bonds, State Docks Department Facilities, Series 2001, 5.250%, 10/01/26 ☐ AMBAC Insured (Alternative Minimum Tax)	10/11 at 100
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**Alaska ☐ 0.7% (0.4% of Total Investments)**

4,000	Alaska Student Loan Corporation, Student Loan Revenue Bonds, Series 1998A, 5.250%, 7/01/14 ☐ AMBAC Insured (Alternative Minimum Tax)	7/08 at 100
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**Arkansas ☐ 0.9% (0.6% of Total Investments)**

Sebastian County Health Facilities Board, Arkansas, Hospital Revenue Improvement Bonds, Sparks Regional Medical Center, Series 2001A:		
1,805	5.500%, 11/01/13	11/11 at 101
1,900	5.500%, 11/01/14	11/11 at 101
1,745	5.250%, 11/01/21	11/11 at 101

5,450 Total Arkansas

**California ☐ 10.7% (7.1% of Total Investments)**

855	California Health Facilities Financing Authority, Health Facility Revenue Bonds, Adventist Health System/West, Series 2003A, 5.000%, 3/01/28	3/13 at 100
5,000	California Infrastructure Economic Development Bank, Revenue Bonds, Kaiser Hospital Assistance LLC, Series 2001A, 5.550%, 8/01/31	8/11 at 102
5,000	California Statewide Community Development Authority, Revenue Bonds, Kaiser Permanente System, Series 2004G, 2.300%, 4/01/34 (Mandatory put 5/01/07)	8/11 at 100
18,850	California, General Obligation Veterans Welfare Bonds, Series 2001BZ, 5.350%, 12/01/21 ☐ MBIA Insured (Alternative Minimum Tax) Los Angeles Regional Airports Improvement Corporation, California, Lease Revenue Refunding Bonds, LAXFUEL Corporation at Los Angeles International Airport, Series 2001:	6/07 at 101
13,955	5.750%, 1/01/16 ☐ AMBAC Insured (Alternative Minimum Tax)	1/12 at 100
5,000	5.375%, 1/01/21 ☐ AMBAC Insured (Alternative Minimum Tax)	1/12 at 100
1,500	5.250%, 1/01/23 ☐ AMBAC Insured (Alternative Minimum Tax)	1/12 at 100
10,000	5.500%, 1/01/32 ☐ AMBAC Insured (Alternative Minimum Tax)	1/12 at 100
10,000	San Joaquin Hills Transportation Corridor Agency, Orange County, California, Toll Road Revenue Refunding Bonds, Series 1997A, 0.000%, 1/15/35 ☐ MBIA Insured	No Opt. C
3,000	San Mateo County Community College District, California, General Obligation Bonds, Series 2006C, 0.000%, 9/01/30 ☐ MBIA Insured	No Opt. C

73,160 Total California

**Colorado ☐ 7.7% (5.1% of Total Investments)**

2,250	Canterberry Crossing Metropolitan District II, Parker, Colorado, Limited Tax General Obligation Bonds, Series 2002, 7.375%, 12/01/32	12/12 at 100
1,655	Colorado Educational and Cultural Facilities Authority, Charter School Revenue Bonds, Belle Creek Education Center, Series 2002A, 7.625%, 3/15/32	3/12 at 100
3,240	Colorado Educational and Cultural Facilities Authority, Charter School Revenue Bonds, Montessori Peaks Building Foundation, Series 2002A, 8.000%, 5/01/32	5/12 at 102
1,775	Colorado Educational and Cultural Facilities Authority, Charter School Revenue Bonds, Weld County School District 6 ☐ Frontier Academy, Series 2001, 7.375%, 6/01/31	6/11 at 100

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3,380	Colorado Housing Finance Authority, Multifamily Project Bonds, Class I, Series 2001A-1, 5.500%, 4/01/31 (Alternative Minimum Tax)	10/11 at 100
10,100	Colorado Springs, Colorado, Utility System Revenue Refunding and Improvement Bonds, Series 1997A, 5.375%, 11/15/26 Denver City and County, Colorado, Airport System Revenue Bonds, Series 1996A:	11/07 at 100
19,150	5.750%, 11/15/16 ☐ MBIA Insured	11/06 at 101
1,105	5.500%, 11/15/25 ☐ MBIA Insured	11/06 at 101
2,000	Denver City and County, Colorado, Airport System Revenue Refunding Bonds, Series 2001A, 5.500%, 11/15/16 ☐ FGIC Insured (Alternative Minimum Tax)	11/11 at 100
1,000	Plaza Metropolitan District 1, Lakewood, Colorado, Tax Increment Revenue Bonds, Series 2003, 8.000%, 12/01/25	6/14 at 101

45,655 Total Colorado

**Delaware ☐ 0.4% (0.3% of Total Investments)**

2,560	Delaware Housing Authority, Multifamily Mortgage Revenue Bonds, Series 2001A, 5.400%, 7/01/24	7/12 at 100
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**District of Columbia ☐ 1.0% (0.7% of Total Investments)**

6,000	District of Columbia, Revenue Bonds, Catholic University of America, Series 1999, 5.625%, 10/01/29 ☐ AMBAC Insured	10/09 at 101
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**Florida ☐ 1.6% (1.1% of Total Investments)**

2,000	Dade County, Florida, Water and Sewerage System Revenue Bonds, Series 1997, 5.375%, 10/01/16 ☐ FGIC Insured	10/07 at 102
	Orange County Housing Finance Authority, Florida, Multifamily Housing Revenue Bonds, Oak Glen Apartments, Series 2001G:	
1,105	5.400%, 12/01/32 ☐ FSA Insured	12/11 at 100
2,195	5.450%, 12/01/41 ☐ FSA Insured	12/11 at 100
4,175	Pace Property Finance Authority Inc., Florida, Utility System Improvement and Revenue Refunding Bonds, Series 1997, 5.250%, 9/01/17 ☐ AMBAC Insured	9/07 at 102

9,475 Total Florida

**Georgia ☐ 2.3% (1.5% of Total Investments)**

5,000	Atlanta, Georgia, Airport General Revenue Bonds, Series 2000B, 5.625%, 1/01/30 ☐ FGIC Insured (Alternative Minimum Tax)	1/10 at 101
2,700	Atlanta, Georgia, Tax Allocation Bonds, Atlantic Station Project, Series 2001, 7.900%, 12/01/24	12/11 at 101
3,740	Gainesville and Hall County Hospital Authority, Georgia, Revenue Anticipation Certificates, Northeast Georgia Health Services Inc., Series 2001, 5.500%, 5/15/31	5/11 at 100
2,000	Henry County Water and Sewerage Authority, Georgia, Revenue Bonds, Series 2000, 5.625%, 2/01/30 (Pre-refunded 2/01/10) ☐ FGIC Insured	2/10 at 101

13,440 Total Georgia

**Hawaii ☐ 0.9% (0.6% of Total Investments)**

5,125	Hawaii, Highway Revenue Bonds, Series 2001, 5.375%, 7/01/21 (Pre-refunded 7/01/11) ☐ FSA Insured	7/11 at 100
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<b>Illinois □ 18.4% (12.3% of Total Investments)</b>		
3,000	Chicago, Illinois, General Obligation Bonds, Neighborhoods Alive 21 Program, Series 2001A, 5.500%, 1/01/31 (Pre-refunded 1/01/11) □ FGIC Insured	1/11 at 100
285	Chicago, Illinois, General Obligation Refunding Bonds, Series 1996B, 5.125%, 1/01/25 □ FGIC Insured	1/08 at 100
8,375	Chicago, Illinois, Revenue Bonds, Midway Airport, Series 2001A, 5.500%, 1/01/19 □ FSA Insured (Alternative Minimum Tax)	1/11 at 101
1,750	Chicago, Illinois, Sales Tax Revenue Bonds, Series 1998, 5.250%, 1/01/28 □ FGIC Insured	7/08 at 102
10,800	Chicago, Illinois, Sales Tax Revenue Bonds, Series 1999, 5.375%, 1/01/30 (Pre-refunded 1/01/09) □ FGIC Insured	1/09 at 101
4,950	Chicago, Illinois, Second Lien Passenger Facility Charge Revenue Bonds, O'Hare International Airport, Series 2001A, 5.375%, 1/01/32 □ AMBAC Insured (Alternative Minimum Tax)	1/11 at 101
8,610	Chicago, Illinois, Second Lien Wastewater Transmission Revenue Bonds, Series 2001A, 5.500%, 1/01/26 (Pre-refunded 1/01/11) □ AMBAC Insured	1/11 at 100
2,220	Chicago, Illinois, Second Lien Wastewater Transmission Revenue Bonds, Series 2001A, 5.500%, 1/01/16 □ MBIA Insured	No Opt. C
10,000	Chicago, Illinois, Senior Lien Water Revenue Bonds, Series 2001, 5.000%, 11/01/26 (Pre-refunded 11/01/11) □ AMBAC Insured	11/11 at 100
1,665	Chicago, Illinois, Third Lien General Airport Revenue Bonds, O'Hare International Airport, Series 2005A, 5.000%, 1/01/33 □ FGIC Insured	1/16 at 100
2,415	Illinois Finance Authority, General Obligation Debt Certificates, Local Government Program □ Kankakee County, Series 2005B, 5.000%, 12/01/24 □ AMBAC Insured	12/14 at 100
1,100	Illinois Health Facilities Authority, Revenue Bonds, Condell Medical Center, Series 2000, 6.500%, 5/15/30	5/10 at 101
9,000	Illinois Health Facilities Authority, Revenue Bonds, Covenant Retirement Communities Inc., Series 2001, 5.875%, 12/01/31	12/11 at 101
15,000	Illinois Health Facilities Authority, Revenue Bonds, Loyola University Health System, Series 2001A, 6.125%, 7/01/31	7/11 at 100
5,000	Lake County School District 38, Big Hollow, Illinois, General Obligation Bonds, Series 2005, 0.000%, 2/01/22 □ AMBAC Insured	No Opt. C
7,000	Lombard Public Facilities Corporation, Illinois, First Tier Conference Center and Hotel Revenue Bonds, Series 2005A-1, 7.125%, 1/01/36	1/16 at 100
16,900	Metropolitan Pier and Exposition Authority, Illinois, Revenue Bonds, McCormick Place Expansion Project, Series 1999A, 5.250%, 12/15/28 □ FGIC Insured	12/09 at 101
2,000	Metropolitan Pier and Exposition Authority, Illinois, Revenue Refunding Bonds, McCormick Place Expansion Project, Series 1998A, 5.500%, 6/15/29 □ FGIC Insured	No Opt. C
110,070	Total Illinois	

**Indiana □ 5.8% (3.9% of Total Investments)**

Clark-Pleasant Community School Building Corporation, Indiana, First Mortgage Bonds, Series 2001:		
1,255	5.000%, 7/15/21 (Pre-refunded 1/15/12) □ AMBAC Insured	1/12 at 100
1,000	5.000%, 1/15/26 (Pre-refunded 1/15/12) □ AMBAC Insured	1/12 at 100
Evansville Vanderburgh Public Library Lease Corporation, Indiana, First Mortgage Bonds, Series 2001:		
2,000	5.750%, 7/15/18 (Pre-refunded 1/15/12) □ MBIA Insured	1/12 at 100

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2,750	5.125%, 1/15/24 (Pre-refunded 1/15/12) □ MBIA Insured	1/12 at 100
3,405	Gary, Indiana, GNMA/FHA Mortgage Revenue Bonds, Windsor Square Project, Series 2001A, 5.375%, 10/20/41 (Alternative Minimum Tax)	11/11 at 102
1,250	Hamilton Southeastern Cumberland Campus School Building Corporation, Indiana, First Mortgage Bonds, Series 2001, 5.125%, 1/15/23 □ AMBAC Insured	1/12 at 100
9,500	Indiana Educational Facilities Authority, Revenue Bonds, Butler University, Series 2001, 5.500%, 2/01/26 □ MBIA Insured	2/11 at 100
4,230	Indiana Finance Authority, Educational Facilities Revenue Bonds, Tudor Park Foundation, Series 2005B, 5.000%, 6/01/24	6/15 at 100
2,800	Indiana Health Facility Financing Authority, Revenue Bonds, Community Hospitals of Indiana, Series 2005A, 5.000%, 5/01/35 □ AMBAC Insured	5/15 at 100
2,650	Indianapolis Airport Authority, Indiana, Special Facility Revenue Bonds, AAR Corporation Assumed Lease, Series 1995, 6.500%, 11/15/31 (Alternative Minimum Tax) (5)	11/06 at 101
3,500	University of Southern Indiana, Student Fee Bonds, Series 2001H, 5.000%, 10/01/21 □ AMBAC Insured	10/11 at 100
	Wayne County Jail Holding Corporation, Indiana, First Mortgage Bonds, Series 2001:	
1,150	5.625%, 7/15/18 □ AMBAC Insured	1/13 at 101
1,090	5.500%, 7/15/22 □ AMBAC Insured	1/13 at 101

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36,580 Total Indiana

**Iowa □ 5.9% (3.9% of Total Investments)**

2,000	Iowa Finance Authority, Healthcare Revenue Bonds, Great River Medical Center, Series 2001, 5.250%, 5/15/31 □ FSA Insured	5/11 at 100
28,000	Iowa Tobacco Settlement Authority, Tobacco Settlement Asset-Backed Revenue Bonds, Series 2001B: 5.300%, 6/01/25 (Pre-refunded 6/01/11)	6/11 at 101
3,950	5.600%, 6/01/35 (Pre-refunded 6/01/11)	6/11 at 101

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33,950 Total Iowa

**Kentucky □ 3.1% (2.1% of Total Investments)**

18,500	Louisville and Jefferson County Metropolitan Sewer District, Kentucky, Sewer and Drainage System Revenue Bonds, Series 2001A, 5.125%, 5/15/27 □ MBIA Insured	11/11 at 101
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**Louisiana □ 3.4% (2.3% of Total Investments)**

19,890	Tobacco Settlement Financing Corporation, Louisiana, Tobacco Settlement Asset-Backed Bonds, Series 2001B, 5.875%, 5/15/39	5/11 at 101
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**Maine □ 1.1% (0.7% of Total Investments)**

	Maine State Housing Authority, Single Family Mortgage Purchase Bonds, Series 2001B:	
4,610	5.400%, 11/15/21 (Alternative Minimum Tax)	11/10 at 100
1,800	5.500%, 11/15/32 (Alternative Minimum Tax)	11/10 at 100

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6,410 Total Maine

**Maryland □ 2.0% (1.3% of Total Investments)**

1,570	Maryland Community Development Administration, Insured Multifamily Housing Mortgage Loan Revenue Bonds, Series 2001B, 5.250%, 7/01/21 (Alternative Minimum Tax)	7/11 at 100
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10,600 Maryland Energy Financing Administration, Revenue Bonds, AES Warrior Run Project, Series 1995, 7.400%, 9/01/19 (Alternative Minimum Tax) 9/07 at 100

12,170 Total Maryland

**Massachusetts □ 0.9% (0.6% of Total Investments)**

5,000 Massachusetts Port Authority, Special Facilities Revenue Bonds, Delta Air Lines Inc., Series 2001A, 5.500%, 1/01/18 □ AMBAC Insured (Alternative Minimum Tax) 1/11 at 100

**Michigan □ 9.1% (6.1% of Total Investments)**

15,000 Detroit City School District, Wayne County, Michigan, Unlimited Tax School Building and Site Improvement Bonds, Series 2001A, 6.000%, 5/01/29 □ FSA Insured No Opt. C

11,000 Kent Hospital Finance Authority, Michigan, Revenue Bonds, Spectrum Health, Series 2001A, 5.500%, 1/15/31 (Pre-refunded 7/15/11) 7/11 at 100

1,235 Michigan State Building Authority, Revenue Bonds, Facilities Program, Series 2001I, 5.500%, 10/15/18 10/11 at 100

1,355 Michigan State Hospital Finance Authority, Hospital Revenue Bonds, Detroit Medical Center Obligated Group, Series 1998A, 5.250%, 8/15/23 8/08 at 100

3,485 Michigan State Hospital Finance Authority, Hospital Revenue Refunding Bonds, Sisters of Mercy Health Corporation, Series 1993P, 5.375%, 8/15/14 □ MBIA Insured (ETM) No Opt. C  
Michigan State Hospital Finance Authority, Hospital Revenue Refunding Bonds, Sparrow Obligated Group, Series 2001:

1,400 5.500%, 11/15/21 11/11 at 100

2,500 5.625%, 11/15/31 11/11 at 100

12,640 Royal Oak Hospital Finance Authority, Michigan, Hospital Revenue Bonds, William Beaumont Hospital, Series 2001M, 5.250%, 11/15/31 □ MBIA Insured 11/11 at 100

2,395 Ypsilanti Community Utilities Authority, Washtenaw County, Michigan, General Obligation Bonds, Sanitary Sewerage System 3, Series 2001, 5.100%, 5/01/31 □ FGIC Insured 5/11 at 100

51,010 Total Michigan

**Minnesota □ 0.4% (0.3% of Total Investments)**

2,340 Dakota County Community Development Agency, Minnesota, GNMA Collateralized Multifamily Housing Revenue Bonds, Rose Apartments Project, Series 2001, 6.350%, 10/20/37 (Alternative Minimum Tax) 10/11 at 100

**Mississippi □ 0.3% (0.3% of Total Investments)**

2,155 Mississippi Business Finance Corporation, GNMA Collateralized Retirement Facility Mortgage Revenue Refunding Bonds, Aldersgate Retirement Community Inc. Project, Series 1999A, 5.450%, 5/20/34 5/09 at 100

**Missouri □ 2.5% (1.7% of Total Investments)**

1,825 Fenton, Missouri, Tax Increment Refunding and Improvement Revenue Bonds, Gravois Bluffs 10/12 at 100