

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

| Principal | Optional C |
|-------------------------------------|-------------------|
| Amount (000) Description (1) | Provisions |

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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 |
|----|-------|---|--------------|

Alaska ☐ 0.7% (0.4% of Total Investments)

| | | |
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| 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 |
|-------|--|-------------|

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 |
|-------|---|-------------|

District of Columbia ☐ 1.0% (0.7% of Total Investments)

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|-------|--|--------------|
| 6,000 | District of Columbia, Revenue Bonds, Catholic University of America, Series 1999, 5.625%, 10/01/29 ☐ AMBAC Insured | 10/09 at 101 |
|-------|--|--------------|

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)

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|-------|--|--------------|
| 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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| Illinois □ 18.4% (12.3% of Total Investments) | | |
|--|---|--------------|
| 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 |

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 |

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 |
|--------|--|--------------|

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 |
|--------|---|-------------|

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 |

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 105

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 103

Missouri □ 2.5% (1.7% of Total Investments)

1,825 Fenton, Missouri, Tax Increment Refunding and Improvement Revenue Bonds, Gravois Bluffs Redevelopment Project, Series 2002, 6.125%, 10/01/21 (Pre-refunded 10/01/12) 10/12 at 100

Missouri Development Finance Board, Cultural Facilities Revenue Bonds, Nelson Gallery Foundation, Series 2001A:

3,335 5.250%, 12/01/19 □ MBIA Insured 12/11 at 100

3,510 5.250%, 12/01/20 □ MBIA Insured 12/11 at 100

3,695 5.250%, 12/01/21 □ MBIA Insured 12/11 at 100

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2,040 5.250%, 12/01/22 ☐ MBIA Insured 12/11 at 100

14,405 Total Missouri

Montana ☐ 0.9% (0.6% of Total Investments)

5,000 Montana Board of Investments, Exempt Facility Revenue Bonds, Stillwater Mining Company, Series 2000, 8.000%, 7/01/20 (Alternative Minimum Tax) 7/10 at 101

Nebraska ☐ 0.9% (0.6% of Total Investments)

Nebraska Investment Finance Authority, Single Family Housing Revenue Bonds, Series 2001D:

2,255 5.250%, 9/01/21 (Alternative Minimum Tax) 9/11 at 100

3,035 5.375%, 9/01/32 (Alternative Minimum Tax) 9/11 at 100

5,290 Total Nebraska

Nevada ☐ 7.8% (5.2% of Total Investments)

35,000 Clark County, Nevada, Limited Tax General Obligation Bank Bonds, Series 2000, 5.500%, 7/01/30 (Pre-refunded 7/01/10) ☐ MBIA Insured 7/10 at 100

2,000 Director of Nevada State Department of Business and Industry, Revenue Bonds, Las Vegas Monorail Project, First Tier, Series 2000, 5.375%, 1/01/40 ☐ AMBAC Insured 1/10 at 100

4,000 Director of Nevada State Department of Business and Industry, Revenue Bonds, Las Vegas Monorail Project, Second Tier, Series 2000, 7.375%, 1/01/40 1/10 at 102

265 Nevada Housing Division, Single Family Mortgage Bonds, Senior Series 1998A-1, 5.300%, 4/01/18 (Alternative Minimum Tax) 4/08 at 101

4,290 University of Nevada, Revenue Bonds, Community College System, Series 2001A, 5.250%, 7/01/26 ☐ FGIC Insured 1/12 at 100

45,555 Total Nevada

New Hampshire ☐ 0.2% (0.3% of Total Investments)

2,000 New Hampshire Health and Education Authority, Hospital Revenue Bonds, Concord Hospital, Series 2001, 5.500%, 10/01/21 ☐ FSA Insured 10/11 at 101

New Jersey ☐ 3.6% (2.4% of Total Investments)

10,000 New Jersey Economic Development Authority, Water Facilities Revenue Bonds, American Water Company, Series 2002A, 5.250%, 11/01/32 ☐ AMBAC Insured (Alternative Minimum Tax) 11/12 at 101

4,125 New Jersey Transit Corporation, Certificates of Participation, Federal Transit Administration Grants, Series 2002A, 5.500%, 9/15/13 ☐ AMBAC Insured No Opt. C

20,000 New Jersey Transportation Trust Fund Authority, Transportation System Bonds, Series 2006C, 0.000%, 12/15/28 ☐ AMBAC Insured No Opt. C

34,125 Total New Jersey

New York ☐ 4.4% (2.9% of Total Investments)

1,780 East Rochester Housing Authority, New York, GNMA Secured Revenue Bonds, Gates Senior Housing Inc., Series 2001, 5.300%, 4/20/31 10/11 at 101

5,350 Metropolitan Transportation Authority, New York, Dedicated Tax Fund Bonds, Series 2001A, 11/11 at 100

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|-------|--|-------------|
| | 5.000%, 11/15/31 (Pre-refunded 11/15/11) □ FGIC Insured | |
| 4,155 | Monroe County Airport Authority, New York, Revenue Refunding Bonds, Greater Rochester International Airport, Series 1999, 5.750%, 1/01/13 □ MBIA Insured (Alternative Minimum Tax) | No Opt. C |
| | New York City Municipal Water Finance Authority, New York, Water and Sewerage System Revenue Bonds, Fiscal Series 2001A: | |
| 3,610 | 5.500%, 6/15/33 (Pre-refunded 6/15/10) □ MBIA Insured | 6/10 at 100 |
| 5,710 | 5.500%, 6/15/33 (Pre-refunded 6/15/10) □ FGIC Insured | 6/10 at 100 |
| 2,500 | New York City, New York, General Obligation Bonds, Fiscal Series 2002G, 5.625%, 8/01/20 □ MBIA Insured | 8/12 at 100 |
| 2,000 | New York State Tobacco Settlement Financing Corporation, Tobacco Settlement Asset-Backed and State Contingency Contract-Backed Bonds, Series 2003B-1C, 5.500%, 6/01/16 | 6/11 at 100 |

25,105 Total New York

North Carolina □ 1.1% (0.7% of Total Investments)

| | | |
|-------|---|-------------|
| | Charlotte-Mecklenburg Hospital Authority, North Carolina, Healthcare System Revenue Bonds, DBA Carolinas Healthcare System, Series 2005A: | |
| 1,750 | 4.875%, 1/15/32 | 1/15 at 100 |
| 3,000 | 5.000%, 1/15/45 | 1/15 at 100 |
| 1,800 | North Carolina Municipal Power Agency 1, Catawba Electric Revenue Bonds, Series 2003A, 5.500%, 1/01/13 | No Opt. C |

6,550 Total North Carolina

Ohio □ 2.3% (1.5% of Total Investments)

| | | |
|-------|--|--------------|
| 2,370 | Ohio Housing Finance Agency, GNMA Mortgage-Backed Securities Program Residential Mortgage Revenue Bonds, Series 1998A-1, 5.300%, 9/01/19 □ FSA Insured (Alternative Minimum Tax) | 3/08 at 100 |
| 7,600 | Ohio Water Development Authority, Solid Waste Disposal Revenue Bonds, Bay Shore Power, Series 1998B, 6.625%, 9/01/20 (Alternative Minimum Tax) | 9/09 at 100 |
| | Portage County, Ohio, General Obligation Bonds, Series 2001: | |
| 1,870 | 5.000%, 12/01/21 □ FGIC Insured | 12/11 at 100 |
| 1,775 | 5.000%, 12/01/23 □ FGIC Insured | 12/11 at 100 |

13,615 Total Ohio

Oklahoma □ 0.4% (0.4% of Total Investments)

| | | |
|-------|--|-------------|
| 2,500 | Oklahoma Development Finance Authority, Revenue Refunding Bonds, Hillcrest Healthcare System, Series 1999A, 5.625%, 8/15/29 (Pre-refunded 8/15/09) | 8/09 at 100 |
|-------|--|-------------|

Oregon □ 2.5% (1.7% of Total Investments)

| | | |
|--------|--|--------------|
| 4,700 | Oregon Health, Housing, Educational and Cultural Facilities Authority, Revenue Bonds, PeaceHealth Project, Series 2001, 5.250%, 11/15/21 □ AMBAC Insured | 11/11 at 100 |
| 10,000 | Oregon Housing and Community Services Department, Multifamily Housing Revenue Bonds, Series 2000A, 6.050%, 7/01/42 (Alternative Minimum Tax) | 7/10 at 100 |

14,700 Total Oregon

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Pennsylvania □ 1.9% (1.3% of Total Investments)

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| Allegheny County Hospital Development Authority, Pennsylvania, Revenue Bonds, West Penn Allegheny Health System, Series 2000B: | | |
| 2,000 | 9.250%, 11/15/22 | 11/10 at 102 |
| 2,000 | 9.250%, 11/15/30 | 11/10 at 102 |
| 3,500 | Pennsylvania Economic Development Financing Authority, Senior Lien Resource Recovery Revenue Bonds, Northampton Generating Project, Series 1994A, 6.600%, 1/01/19 (Alternative Minimum Tax) | 1/07 at 100 |
| 3,205 | Philadelphia School District, Pennsylvania, General Obligation Bonds, Series 2002B, 5.625%, 8/01/16 (Pre-refunded 8/01/12) □ FGIC Insured | 8/12 at 100 |
| <hr/> | | |
| 10,705 | Total Pennsylvania | |

South Carolina □ 1.6% (1.1% of Total Investments)

| | | |
|-------|--|--------------|
| 2,185 | Greenville County, South Carolina, Special Source Revenue Bonds, Road Improvement Project, Series 2001, 5.500%, 4/01/21 □ AMBAC Insured | 4/11 at 101 |
| 6,850 | South Carolina Transportation Infrastructure Bank, Revenue Bonds, Series 2001A, 5.500%, 10/01/22 (Pre-refunded 10/01/11) □ AMBAC Insured | 10/11 at 100 |
| <hr/> | | |
| 9,035 | Total South Carolina | |

Tennessee □ 1.3% (0.8% of Total Investments)

| | | |
|-------|--|-------------|
| 5,210 | Memphis-Shelby County Airport Authority, Tennessee, Airport Revenue Bonds, Series 2001A, 5.500%, 3/01/14 □ FSA Insured (Alternative Minimum Tax) | 3/11 at 100 |
| 1,130 | Tennessee Housing Development Agency, Homeownership Program Bonds, Series 1998-2, 5.350%, 7/01/23 (Alternative Minimum Tax) | 1/09 at 101 |
| 1,130 | Tennessee Housing Development Agency, Homeownership Program Bonds, Series 2001-3A, 5.200%, 7/01/22 (Alternative Minimum Tax) | 7/11 at 100 |
| <hr/> | | |
| 7,470 | Total Tennessee | |

Texas □ 18.7% (12.5% of Total Investments)

| | | |
|--|---|--------------|
| 1,125 | Brushy Creek Municipal Utility District, Williamson County, Texas, Combination Unlimited Tax and Revenue Refunding Bonds, Series 2001, 5.125%, 6/01/26 □ FSA Insured | 6/09 at 100 |
| Collins and Denton Counties, Frisco, Texas, General Obligation Bonds, Series 2001: | | |
| 1,910 | 5.000%, 2/15/20 □ FGIC Insured | 2/11 at 100 |
| 2,005 | 5.000%, 2/15/21 □ FGIC Insured | 2/11 at 100 |
| 3,850 | Dallas-Ft. Worth International Airport, Texas, Joint Revenue Refunding and Improvement Bonds, Series 2001A, 5.500%, 11/01/35 □ FGIC Insured (Alternative Minimum Tax) | 11/11 at 100 |
| 5,000 | Decatur Hospital Authority, Texas, Revenue Bonds, Wise Regional Health System, Series 2004A, 7.000%, 9/01/25 | 9/14 at 100 |
| 4,040 | Harris County, Texas, Tax and Revenue Certificates of Obligation, Series 2001, 5.000%, 8/15/27 | 8/11 at 100 |
| 6,000 | Houston, Texas, Junior Lien Water and Sewerage System Revenue Refunding Bonds, Series 2001B, 5.500%, 12/01/29 □ MBIA Insured (ETM) | No Opt. C |
| 7,000 | Houston, Texas, Subordinate Lien Airport System Revenue Bonds, Series 1998B, 5.250%, 7/01/14 □ FGIC Insured (Alternative Minimum Tax) | 7/08 at 101 |
| Houston, Texas, Subordinate Lien Airport System Revenue Refunding Bonds, Series 2001A: | | |
| 2,525 | 5.500%, 7/01/13 □ FGIC Insured (Alternative Minimum Tax) | 1/12 at 100 |
| 2,905 | 5.500%, 7/01/14 □ FGIC Insured (Alternative Minimum Tax) | 1/12 at 100 |

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Jefferson County Health Facilities Development Corporation, Texas, FHA-Insured Mortgage Revenue Bonds, Baptist Hospital of Southeast Texas, Series 2001:

| | | |
|--------|---|--------------|
| 8,500 | 5.400%, 8/15/31 ☐ AMBAC Insured | 8/11 at 100 |
| 8,500 | 5.500%, 8/15/41 ☐ AMBAC Insured | 8/11 at 100 |
| 10,700 | Laredo Independent School District, Webb County, Texas, General Obligation Refunding Bonds, Series 2001, 5.000%, 8/01/25 | 8/11 at 100 |
| 2,500 | Matagorda County Navigation District 1, Texas, Collateralized Revenue Refunding Bonds, Houston Light and Power Company, Series 1997, 5.125%, 11/01/28 ☐ AMBAC Insured (Alternative Minimum Tax) | No Opt. C |
| 1,540 | Medina Valley Independent School District, Medina County, Texas, General Obligation Bonds, Series 2001, 5.250%, 2/15/26 (Pre-refunded 2/15/11) | 2/11 at 100 |
| 5,430 | Mineral Wells Independent School District, Pale Pinto and Parker Counties, Texas, Unlimited School Tax Building and Refunding Bonds, Series 1998, 4.750%, 2/15/22 | 2/08 at 100 |
| 3,000 | North Central Texas Health Facilities Development Corporation, Revenue Bonds, Texas Health Resources System, Series 1997B, 5.375%, 2/15/26 ☐ MBIA Insured | 2/08 at 102 |
| 3,045 | Port of Houston Authority, Harris County, Texas, General Obligation Port Improvement Bonds, Series 2001B, 5.500%, 10/01/17 ☐ FGIC Insured (Alternative Minimum Tax) | 10/11 at 100 |
| 10,665 | Texas Department of Housing and Community Affairs, Residential Mortgage Revenue Bonds, Series 2001A, 5.350%, 7/01/33 (Alternative Minimum Tax) | 7/11 at 100 |
| 15,700 | Texas Water Development Board, Senior Lien State Revolving Fund Revenue Bonds, Series 1996B, 5.125%, 7/15/18 | 1/07 at 100 |
| | White Settlement Independent School District, Tarrant County, Texas, General Obligation Bonds, Series 2006: | |
| 9,110 | 0.000%, 8/15/37 | 8/15 at 31 |
| 9,110 | 0.000%, 8/15/40 | 8/15 at 27 |
| 7,110 | 0.000%, 8/15/44 | 8/15 at 21 |

131,270 Total Texas

Utah ☐ 0.9% (0.6% of Total Investments)

Utah Housing Corporation, Single Family Mortgage Bonds, Series 2001E:

| | | |
|-------|---|-------------|
| 1,855 | 5.200%, 1/01/18 (Alternative Minimum Tax) | 7/11 at 100 |
| 595 | 5.500%, 1/01/23 (Alternative Minimum Tax) | 7/11 at 100 |
| | Utah Housing Corporation, Single Family Mortgage Bonds, Series 2001F-1: | |
| 2,375 | 4.950%, 7/01/18 (Alternative Minimum Tax) | 7/11 at 100 |
| 610 | 5.300%, 7/01/23 (Alternative Minimum Tax) | 7/11 at 100 |

5,435 Total Utah

Virginia ☐ 0.8% (0.5% of Total Investments)

| | | |
|-------|--|------------|
| 7,000 | Pocahontas Parkway Association, Virginia, Senior Lien Revenue Bonds, Route 895 Connector Toll Road, Series 1998B, 0.000%, 8/15/13 (Pre-refunded 8/15/08) | 8/08 at 77 |
|-------|--|------------|

Washington ☐ 15.6% (10.4% of Total Investments)

Bellingham Housing Authority, Washington, Housing Revenue Bonds, Varsity Village Project, Series 2001A:

| | | |
|-------|---------------------------------|--------------|
| 1,000 | 5.500%, 12/01/27 ☐ MBIA Insured | 12/11 at 100 |
| 2,000 | 5.600%, 12/01/36 ☐ MBIA Insured | 12/11 at 100 |

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| | | |
|--------|---|--------------|
| 1,500 | Grays Harbor County Public Utility District 1, Washington, Electric System Revenue Bonds, Series 2001, 5.125%, 1/01/22 ☐ AMBAC Insured | 1/11 at 100 |
| 2,475 | Klickitat County Public Utility District 1, Washington, Electric Revenue Bonds, Series 2001B, 5.000%, 12/01/26 ☐ AMBAC Insured | 12/11 at 100 |
| 12,955 | Port of Seattle, Washington, Passenger Facility Charge Revenue Bonds, Series 1998B, 5.300%, 12/01/16 ☐ AMBAC Insured (Alternative Minimum Tax) Port of Seattle, Washington, Revenue Bonds, Series 2001B: | 12/08 at 101 |
| 2,535 | 5.625%, 4/01/18 ☐ FGIC Insured (Alternative Minimum Tax) | 10/11 at 100 |
| 16,000 | 5.100%, 4/01/24 ☐ FGIC Insured (Alternative Minimum Tax) | 10/08 at 100 |
| 2,090 | Public Utility District 1, Benton County, Washington, Electric Revenue Refunding Bonds, Series 2001A, 5.625%, 11/01/15 ☐ FSA Insured | 11/11 at 100 |
| 5,680 | Seattle, Washington, Municipal Light and Power Revenue Refunding and Improvement Bonds, Series 2001, 5.500%, 3/01/18 ☐ FSA Insured | 3/11 at 100 |
| 4,530 | Tacoma, Washington, Solid Waste Utility Revenue Refunding Bonds, Series 2001, 5.250%, 12/01/21 ☐ AMBAC Insured | 12/11 at 100 |
| 3,720 | Washington State Healthcare Facilities Authority, Revenue Bonds, Children's Hospital and Regional Medical Center, Series 2001, 5.375%, 10/01/18 (Pre-refunded 10/01/11) ☐ AMBAC Insured Washington State Healthcare Facilities Authority, Revenue Bonds, Good Samaritan Hospital, Series 2001: | 10/11 at 100 |
| 5,480 | 5.500%, 10/01/21 ☐ RAAI Insured | 10/11 at 101 |
| 25,435 | 5.625%, 10/01/31 ☐ RAAI Insured Washington State Healthcare Facilities Authority, Revenue Bonds, Group Health Cooperative of Puget Sound, Series 2001: | 10/11 at 101 |
| 3,005 | 5.375%, 12/01/17 ☐ AMBAC Insured | 12/11 at 101 |
| 2,915 | 5.375%, 12/01/18 ☐ AMBAC Insured | 12/11 at 101 |

91,320 Total Washington

Wisconsin ☐ 4.5% (3.0% of Total Investments)

| | | |
|--------|--|--------------|
| | Appleton, Wisconsin, Waterworks Revenue Refunding Bonds, Series 2001: | |
| 3,705 | 5.375%, 1/01/20 ☐ FGIC Insured | 1/12 at 100 |
| 1,850 | 5.000%, 1/01/21 ☐ FGIC Insured | 1/12 at 100 |
| 1,735 | Evansville Community School District, Dane, Green and Rock Counties, Wisconsin, General Obligation Refunding Bonds, Series 2001, 5.500%, 4/01/20 (Pre-refunded 4/01/11) ☐ FGIC Insured | 4/11 at 100 |
| 12,250 | La Crosse, Wisconsin, Pollution Control Revenue Refunding Bonds, Dairyland Power Cooperative, Series 1997B, 5.550%, 2/01/15 ☐ AMBAC Insured | 12/08 at 102 |
| 350 | Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Froedtert and Community Health Obligated Group, Series 2001, 5.375%, 10/01/30 | 10/11 at 101 |
| 3,650 | Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Froedtert and Community Health Obligated Group, Series 2001, 5.375%, 10/01/30 (Pre-refunded 10/01/11) | 10/11 at 101 |
| 2,500 | Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Marshfield Clinic, Series 2001B, 6.000%, 2/15/25 | 2/12 at 100 |

26,040 Total Wisconsin

\$ 925,715 Total Investments (cost \$878,125,732) ☐ 149.4%

Other Assets Less Liabilities ☐ 1.5%

Preferred Shares, at Liquidation Value □ (50.9)%

Net Assets Applicable to Common Shares □ 100%

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
 - (2) Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.
 - (3) Ratings: Using the higher of Standard & Poor's or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
 - (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.
 - (5) On December 9, 2002, UAL Corporation (□UAL□), the holding company of United Air Lines, Inc. filed for federal bankruptcy protection. The Adviser determined that it was likely that United would not remain current on their interest payment obligations with respect to the bonds previously held and thus the Fund had stopped accruing interest on its UAL bonds.
- N/R Not rated.
- (ETM) Escrowed to maturity.

Income Tax Information

The following information is presented on an income tax basis. Differences between amounts for financial statement and federal income tax purposes are primarily due to the treatment of paydown gains and losses, timing differences in recognizing taxable market discount and timing differences in recognizing certain gains and losses on investment transactions.

At July 31, 2006, the cost of investments was \$877,867,114.

Gross unrealized appreciation and gross unrealized depreciation of investments at July 31, 2006, were as follows:

| | |
|---|--------------|
| Gross unrealized: | |
| Appreciation | \$40,196,912 |
| Depreciation | (1,645,421) |
| <hr/> | |
| Net unrealized appreciation (depreciation) of investments | \$38,551,491 |

Item 2. Controls and Procedures.

- a. The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a

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date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rule 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934 (17 CFR 240.13a-15(b) or 240.15d-15(b)).

- b. There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the 1940 Act (17 CFR 270.30a-2(a)), exactly as set forth below: EX-99 CERT Attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Nuveen Dividend Advantage Municipal Fund 3

By (Signature and Title)* /s/ Jessica R. Droeger
Jessica R. Droeger
Vice President and Secretary

Date September 28, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)* /s/ Gifford R. Zimmerman
Gifford R. Zimmerman
Chief Administrative Officer (principal executive officer)

Date September 28, 2006

By (Signature and Title)* /s/ Stephen D. Foy
Stephen D. Foy
Vice President and Controller (principal financial officer)

Date September 28, 2006

* Print the name and title of each signing officer under his or her signature.