

NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3
Form N-Q
December 28, 2004

**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 811-21157

Nuveen Arizona 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: 07/31

Date of reporting period: 10/31/04

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 Arizona Dividend Advantage Municipal Fund 3 (NXE)

October 31, 2004

Principal

Description⁽¹⁾

Optional Call

Provisions* Ratings**

Market

Value

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMP

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Principal Amount (000)		Optional Call	Market
Consumer Staples - 3.9% (2.6% of Total Investments)			
\$ 1,890	Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33	5/12 at 100.00	BBB \$ 1,730,692
Education and Civic Organizations - 15.7% (10.5% of Total Investments)			
2,000	Arizona State University, System Revenue Bonds, Series 2002, 5.750%, 7/01/27 - FGIC Insured	7/12 at 100.00	AAA 2,248,540
1,000	Arizona Student Loan Acquisition Authority, Student Loan Revenue Refunding Bonds, Senior Series 1999A-1, 5.750%, 5/01/15 (Alternative Minimum Tax)	11/09 at 102.00	Aaa 1,091,740
1,130	Energy Management Services LLC, Arizona State University, Energy Conservation Revenue Bonds, Main Campus Project, Series 2002, 5.250%, 7/01/18 - MBIA Insured	7/12 at 100.00	AAA 1,256,526
270	Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 1998A, 5.375%, 5/15/28	5/08 at 101.00	A- 278,216
2,000	University of Arizona, Certificates of Participation, Series 2002B, 5.125%, 6/01/20 - AMBAC Insured	6/12 at 100.00	AAA 2,148,120
Healthcare - 16.0% (10.7% of Total Investments)			
750	Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Series 1999A: 6.125%, 11/15/22	11/09 at 100.00	Ba2 750,458
520	6.250%, 11/15/29	11/09 at 100.00	Ba2 523,099
1,000	Arizona Health Facilities Authority, Hospital System Revenue Bonds, John C. Lincoln Health Network, Series 2000, 6.875%, 12/01/20	12/10 at 102.00	BBB 1,123,480
300	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20	7/10 at 101.00	BBB+ 332,085
2,000	Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Mayo Clinic Hospital, Series 1998, 5.250%, 11/15/37	5/08 at 101.00	AA 2,072,460
1,250	Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31	12/11 at 101.00	A3 1,317,413
1,000	Yavapai County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Yavapai Regional Medical Center, Series 2003A, 6.000%, 8/01/33	8/13 at 100.00	Baa2 1,049,510
Housing/Multifamily - 14.6% (9.8% of Total Investments)			
1,750	Maricopa County Industrial Development Authority, Arizona, Multifamily Housing Senior Revenue Bonds, National Voluntary Health Facilities II, Series 1998A, 5.100%, 1/01/33 - FSA Insured	1/18 at 100.00	AAA 1,795,885
2,500	Maricopa County Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing	10/10 at 105.00	Aaa 2,708,200

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Principal		Optional Call		Market
	Revenue Bonds, Villas at Augusta, Series 2000, 6.500%, 10/20/33			
1,545	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Campaigne Place on Jackson, Series 2001, 5.600%, 6/20/21 (Alternative Minimum Tax)	6/11 at 102.00	Aaa	1,656,673
380	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 4/20/44 (Alternative Minimum Tax) (WI, settling 12/16/04)	4/15 at 100.00	Aaa	380,000
Industrials - 2.2% (1.5% of Total Investments)				
945	Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc. Project, Series 2003B, 4.450%, 3/01/28 (Alternative Minimum Tax) (Mandatory put 3/01/08)	No Opt. Call	BBB	975,552
Tax Obligation/General - 26.1% (17.5% of Total Investments)				
660	Chandler, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/18	7/12 at 100.00	AA+	711,566
2,250	DC Ranch Community Facilities District, Scottsdale, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/15/27 - AMBAC Insured	7/13 at 100.00	Aaa	2,338,897
1,930	Glendale, Arizona, General Obligation Refunding Bonds, Series 2002, 5.000%, 7/01/19	7/11 at 100.00	AA	2,082,489
1,000	Maricopa County Unified School District 11, Peoria, Arizona, General Obligation Refunding Bonds, Series 2002, 5.000%, 7/01/15 - FSA Insured	No Opt. Call	AAA	1,124,520
765	Maricopa County Unified School District 69, Paradise Valley, Arizona, General Obligation Refunding Bonds, Second Series 2002, 5.000%, 7/01/15 - FSA Insured	No Opt. Call	AAA	862,430
1,000	Maricopa County Unified School District 95, Queen Creek, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/14 - FGIC Insured	No Opt. Call	Aaa	1,123,010
1,575	Maricopa County Union High School District 210, Phoenix, Arizona, General Obligation Bonds, Series 2004A, 5.000%, 7/01/20 - FSA Insured	7/14 at 100.00	AAA	1,706,134
1,150	Scottsdale, Arizona, General Obligation Refunding Bonds, Series 2002, 5.000%, 7/01/16	No Opt. Call	AAA	1,302,870
440	Tucson, Arizona, General Obligation Bonds, Series 2001B, 5.000%, 7/01/20	7/11 at 100.00	AA	471,214
Tax Obligation/Limited - 41.0% (27.4% of Total Investments)				
2,000	Arizona School Facilities Board, School Improvement Revenue Bonds, Series 2002, 5.250%, 7/01/20	7/12 at 100.00	AAA	2,212,920
3,000	Arizona State Transportation Board, Highway Revenue Refunding Bonds, Series 2002A, 5.250%, 7/01/18	7/12 at 102.00	AAA	3,339,390
1,000	Arizona State Transportation Board, Highway Revenue Bonds, Series 2002B, 5.250%, 7/01/22	7/12 at 100.00	AAA	1,080,110
2,660	Arizona Tourism and Sports Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Series 2003A, 5.375%, 7/01/20 - MBIA Insured	7/13 at 100.00	Aaa	2,943,104

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Principal		Optional Call		Market
380	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25 (DD, settling 11/10/04)	7/10 at 102.00	N/R	421,800
800	Goodyear Community Facilities Utility District 1, Arizona, General Obligation Bonds, Series 2003, 5.350%, 7/15/28 - ACA Insured	7/13 at 100.00	A	816,456
2,000	Mohave County, Arizona, Certificates of Participation, Series 2004, 5.250%, 7/01/19 - AMBAC Insured	7/14 at 100.00	AAA	2,213,160
540	Pima County Industrial Development Authority, Arizona, Charter School Revenue Bonds, Noah Webster Basic Schools Inc., Series 2004, 6.000%, 12/15/24	12/14 at 100.00	BBB-	546,696
1,250	Pinal County Industrial Development Authority, Arizona, Correctional Facilities Contract Revenue Bonds, Florence West Prison LLC, Series 2002A, 5.000%, 10/01/18 - ACA Insured	No Opt. Call	A	1,294,587
2,770	Tempe, Arizona, Excise Tax Revenue Refunding Bonds, Series 2003, 5.000%, 7/01/22	7/13 at 100.00	AA+	2,940,909
565	Tucson Industrial Development Authority, Arizona, Charter School Revenue Bonds, Arizona Agribusiness and Equine Center Charter School, Series 2004A, 6.125%, 9/01/34	9/14 at 100.00	BBB-	566,599
Transportation - 13.6% (9.1% of Total Investments)				
	Phoenix, Arizona, Civic Improvement Corporation, Senior Lien Airport Revenue Bonds, Series 2002B:			
1,000	5.750%, 7/01/16 (Alternative Minimum Tax) - FGIC Insured	7/12 at 100.00	AAA	1,124,910
2,300	5.250%, 7/01/21 (Alternative Minimum Tax) - FGIC Insured	7/12 at 100.00	AAA	2,429,812
2,450	Tucson Airport Authority Inc., Arizona, Revenue Refunding Bonds, Series 2001B, 5.000%, 6/01/20 (Alternative Minimum Tax) - AMBAC Insured	6/11 at 100.00	AAA	2,540,993
U.S. Guaranteed *** - 0.6% (0.4% of Total Investments)				
230	Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 1998A, 5.375%, 5/15/28 (Pre-refunded to 5/15/08)	5/08 at 101.00	A-***	256,227
Utilities - 6.0% (4.0% of Total Investments)				
1,250	Maricopa County Pollution Control Corporation, Arizona, Revenue Bonds, Arizona Public Service Company - Palo Verde Project, Series 2002A, 5.050%, 5/01/29 - AMBAC Insured	11/12 at 100.00	AAA	1,292,563
	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B:			
360	5.000%, 1/01/22	1/13 at 100.00	AA	382,413
1,000	5.000%, 1/01/31	1/13 at 100.00	AA	1,030,710
Water and Sewer - 9.7% (6.5% of Total Investments)				
650	Arizona Water Infrastructure Finance Authority, Water Quality Revenue Bonds, Series 2004A, 5.000%, 10/01/22	10/14 at 100.00	AAA	697,547
405	Oro Valley Municipal Property Corporation, Arizona, Senior Lien Water Revenue Bonds, Series 2003, 5.000%, 7/01/23 - MBIA Insured	7/13 at 100.00	AAA	427,870
1,000	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Refunding	7/11 at 100.00	AAA	1,080,020

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Principal	Optional Call	Market
Bonds, Series 2001, 5.125%, 7/01/21 - FGIC Insured		
2,000 Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2002, 5.000%, 7/01/18 - FGIC Insured	7/12 at 100.00	AAA 2,165,660
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\$ 62,610 Total Long-Term Investments (cost \$64,880,113) - 149.4%		66,966,235
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Other Assets Less Liabilities - (0.3)%		(130,642)
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Preferred Shares, at Liquidation Value - (49.1)%		(22,000,000)
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Net Assets Applicable to Common Shares - 100%		\$44,835,593

Forward Swap Transactions outstanding at October 31, 2004:

	Notional Amount	Effective Date ⁽²⁾	Swap Termination Date	Unrealized Appreciation (Depreciation)
Agreement with Morgan Stanley dated August 4, 2004, to pay semi-annually the notional amount multiplied by 5.660% (annualized) and receive quarterly the notional amount multiplied by the three-month USD-LIBOR (United States Dollar - London Inter-Bank Offered Rates).	\$2,000,000	2/16/05	2/16/35	\$(144,251)
Agreement with Morgan Stanley dated August 5, 2004, to pay quarterly the notional amount multiplied by 4.337% (annualized) and receive quarterly the notional amount multiplied by the daily arithmetic average of the weekly BMA (Bond Market Association) Municipal Swap Index for the quarter.	2,400,000	12/09/04	12/09/24	(94,714)
Agreement with Morgan Stanley dated August 10, 2004, to pay semi-annually the notional amount multiplied by 5.489% (annualized) and receive quarterly the notional amount multiplied by the three-month USD-LIBOR (United States Dollar - London Inter-Bank Offered Rates).	500,000	1/14/05	1/14/35	(24,325)
				<hr/>
				\$(263,290)

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
- (2) Effective date represents the date on which both the Fund and counterparty commence interest payment accruals on each forward swap contract.
- * 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.
- ** Ratings: Using the higher of Standard & Poor's or Moody's rating.
- *** Securities are backed by an escrow or trust containing sufficient U.S. Government or U.S. Government

agency securities which ensures the timely payment of principal and interest. Such securities are normally considered to be equivalent to AAA rated securities.

N/R Investment is not rated.

(DD) Security purchased on a delayed delivery basis.

(WI) Security purchased on a when-issued basis.

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 timing differences in recognizing income on taxable market discount securities and timing differences in recognizing certain gains and losses on security transactions.

At October 31, 2004, the cost of investments was \$64,879,085.

Gross unrealized appreciation and gross unrealized depreciation of investments at October 31, 2004, were as follows:

Gross unrealized:	
Appreciation	\$2,205,835
Depreciation	(118,685)
Net unrealized appreciation of investments	\$2,087,150

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 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 has materially affected, or is 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 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 Arizona Dividend Advantage Municipal Fund 3

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

Date 12/28/04

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.

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By (Signature and Title)* /s/ Gifford R. Zimmerman--Chief Administrative Officer (Principal Executive Officer)

Date 12/28/04

By (Signature and Title)* /s/ Stephen D. Foy--Vice President and Controller (Principal Financial Officer)

Date 12/28/04

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