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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM D
NOTICE OF SALE OF SECURITIES
PURSUANT TO REGULATION D,
SECTION 4(6), AND/OR
UNIFORM LIMITED OFFERING EXEMPTION

Name of Offering () check if this is an amendment and name has changed, and indicate change.)
Harbert Real Estate Fund III, LLC: Offering of up to \$200,000,000 of Units

Filing Under (Check box(es) that apply): () Rule 504 () Rule 505 (X) Rule 506 () Section 4(6) ULOE

Type of Filing: () New Filing (X) Amendment

PROCESSED
NOV 06 2006

A. BASIC IDENTIFICATION DATA

1. Enter the information requested about the issuer

Name of Issuer () check if this is an amendment and name has changed, and indicate change.)
Harbert Real Estate Fund III, LLC

THOMSON
FINANCIAL

Address of Executive Offices (Number and Street, City, State, Zip Code)
One Riverchase Parkway South, Birmingham, Alabama 35244

Telephone Number (Including Area Code)
(205) 987-5500

Address of Principal Business Operations (Number and Street, City, State, Zip Code)
(if different from Executive Offices)

Telephone Number (Including Area Code)

Brief Description of Business
Harbert Real Estate Fund III, LLC (the "Fund") is an investment fund formed for the purpose of making investments in a broad range of real estate and real estate related assets.

Type of Business Organization

() corporation () limited partnership, already formed (X) other (please specify):
Limited Liability Company
() business trust () limited partnership, to be formed

Actual or Estimated Date of Incorporation or Organization: Month 0 1 Year 0 5 (X) Actual () Estimated

Jurisdiction of Incorporation or Organization: (Enter two-letter U.S. Postal Service abbreviation for State:
CN for Canada; FN for other foreign jurisdiction) DE

GENERAL INSTRUCTIONS

Federal:
Who Must File: All issuers making an offering of securities in reliance on an exemption under Regulation D or Section 4(6), 17 CFR 230.501 et seq. or 15 U.S.C. 77d(6).
When To File: A notice must be filed no later than 15 days after the first sale of securities in the offering. A notice is deemed filed with the U.S. Securities and Exchange Commission (SEC) on the earlier of the date it is received by the SEC at the address given below or, if received at that address after the date on which it is due, on the date it was mailed by United States registered or certified mail to that address.
Where To File: U.S. Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549
Copies Required: Five (5) copies of this notice must be filed with the SEC, one of which must be manually signed. Any copies not manually signed must be photocopies of the manually signed copy or bear typed or printed signatures.
Information Required: A new filing must contain all information requested. Amendments need only report the name of the issuer and offering, any changes thereto, the information requested in Part C, and any material changes from the information previously supplied in Parts A and B. Part E and the Appendix need not be filed with the SEC.
Filing Fee: There is no federal filing fee.
State:
This notice shall be used to indicate reliance on the Uniform Limited Offering Exemption (ULOE) for sales of securities in those states that have adopted ULOE and that have adopted this form. Issuers relying on ULOE must file a separate notice with the Securities Administrator in each state where sales are to be, or have been made. If a state requires the payment of a fee as a precondition to the claim for the exemption, a fee in the proper amount shall accompany this form. This notice shall be filed in the appropriate states in accordance with state law. The Appendix to the notice constitutes a part of this notice and must be completed.

ATTENTION

Failure to file notice in the appropriate states will not result in a loss of the federal exemption. Conversely, failure to file the appropriate federal notice will not result in a loss of an available state exemption unless such exemption is predicated on the filing of a federal notice.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number

A. BASIC IDENTIFICATION DATA

2. Enter the information requested for the following:

- Each promoter of the issuer, if the issuer has been organized within the past five years;
- Each beneficial owner having the power to vote or dispose, or direct the vote or disposition of, 10% or more of a class of equity securities of the issuer;
- Each executive officer and director of corporate issuers and of corporate general and managing partners of partnership issuers; and
- Each general and managing partner of partnership issuers.

Check Box(es) that Apply: Promoter Beneficial Owner Executive Officer Director General and/or Managing Partner

Full Name (Last name first, if individual)

Harbert Real Estate Fund III MM, LLC (Manager of the Fund)

Business or Residence Address (Number and Street, City, State, Zip Code)

One Riverchase Parkway South, Birmingham, Alabama 35244

Check Box(es) that Apply: Promoter Beneficial Owner Executive Officer Director General and/or Managing Partner

Full Name (Last name first, if individual)

Harbert Fund Advisors, Inc. (Investment Manager of the Fund)

Business or Residence Address (Number and Street, City, State, Zip Code)

One Riverchase Parkway South, Birmingham, Alabama 35244

Check Box(es) that Apply: Promoter Beneficial Owner Executive Officer Director General and/or Managing Partner

Full Name (Last name first, if individual)

Harbert, Raymond J.

Business or Residence Address (Number and Street, City, State, Zip Code)

One Riverchase Parkway South, Birmingham, Alabama 35244

Check Box(es) that Apply: Promoter Beneficial Owner Executive Officer Director General and/or Managing Partner

Full Name (Last name first, if individual)

White, Michael P.

Business or Residence Address (Number and Street, City, State, Zip Code)

One Riverchase Parkway South, Birmingham, Alabama 35244

Check Box(es) that Apply: Promoter Beneficial Owner Executive Officer Director General and/or Managing Partner

Full Name (Last name first, if individual)

Fuller Alan C.

Business or Residence Address (Number and Street, City, State, Zip Code)

One Riverchase Parkway South, Birmingham, Alabama 35244

Check Box(es) that Apply: Promoter Beneficial Owner Executive Officer Director General and/or Managing Partner

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Check Box(es) that Apply: Promoter Beneficial Owner Executive Officer Director General and/or Managing Partner

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Check Box(es) that Apply: Promoter Beneficial Owner Executive Officer Director General and/or Managing Partner

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Check Box(es) that Apply: Promoter Beneficial Owner Executive Officer Director General and/or Managing Partner

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

(Use blank sheet, or copy and use additional copies of this sheet, as necessary)

B. INFORMATION ABOUT OFFERING

- | | | |
|--|--|---|
| <p>1. Has the issuer sold or does the issuer intend to sell, to non-accredited investors in this offering?
 Answer also in Appendix, Column 2, if filing under ULOE.</p> | Yes
<input type="checkbox"/> | No
<input checked="" type="checkbox"/> |
| <p>2. What is the minimum investment that will be accepted from any individual?
 *minimum may be waived at the discretion of the manager</p> | \$1,000,000 * | |
| <p>3. Does the offering permit joint ownership of a single unit?</p> | Yes
<input checked="" type="checkbox"/> | No
<input type="checkbox"/> |
| <p>4. Enter the information requested for each person who has been or will be paid or given, directly or indirectly, any commission or similar remuneration for solicitation of purchasers in connection with sales of securities in the offering. If a person to be listed is an associated person or agent of a broker or dealer registered with the SEC and/or with a state or states, list the name of the broker or dealer. If more than five (5) persons to be listed are associated persons of such a broker or dealer, you may set forth the information for that broker or dealer only.</p> | | |

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

One Riverchase Parkway South, Birmingham, Alabama 35244

Name of Associated Broker or Dealer

HMC Investments, Inc.

States in Which Person Listed Has Solicited or Intends to Solicit Purchasers

(Check "All States" or check individual States)

All States

AL AK AZ AR CA CO CT DE DC FL GA HI ID
 IL IN IA KS KY LA ME MD MA MI MN MS MO
 MT NE NV NH NJ NM NY NC ND OH OK OR PA
 RI SC SD TN TX UT VT VA WA WV WI WY PR

Full Name (Last Name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Name of Associated Broker or Dealer

States in Which Person Listed Has Solicited or Intends to Solicit Purchasers

(Check "All States" or check individual States)

All States

AL AK AZ AR CA CO CT DE DC FL GA HI ID
 IL IN IA KS KY LA ME MD MA MI MN MS MO
 MT NE NV NH NJ NM NY NC ND OH OK OR PA
 RI SC SD TN TX UT VT VA WA WV WI WY PR

Full Name (Last Name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Name of Associated Broker or Dealer

States in Which Person Listed Has Solicited or Intends to Solicit Purchasers

(Check "All States" or check individual States)

All States

AL AK AZ AR CA CO CT DE DC FL GA HI ID
 IL IN IA KS KY LA ME MD MA MI MN MS MO
 MT NE NV NH NJ NM NY NC ND OH OK OR PA
 RI SC SD TN TX UT VT VA WA WV WI WY PR

(Use blank sheet, or copy and use additional copies of this sheet, as necessary)

C. OFFERING PRICE, NUMBER OF INVESTORS, EXPENSES AND USE OF PROCEEDS

1. Enter the aggregate offering price of securities included in this offering and the total amount already sold. Enter "0" if answer is "none" or "zero". If the transaction is an exchange offering, check this box and indicate in the column below the amounts of the securities offered for exchange and already exchanged.

Type of Security	Aggregate Offering Price	Amount Already Sold
Debt	\$ _____	\$ _____
Equity	\$ _____	\$ _____
<input type="checkbox"/> Common <input type="checkbox"/> Preferred		
Convertible Securities (including warrants)	\$ _____	\$ _____
Partnership Interests	\$ _____	\$ _____
Other (Specify <u>Limited Liability Company Units</u>)	\$ <u>200,000,000</u>	\$ <u>128,020,000</u>
Total	\$ <u>200,000,000</u>	\$ <u>128,020,000</u>

Answer also in Appendix, Column 3, if filing under ULOE

2. Enter the number of accredited and non-accredited investors who have purchased securities in this offering and the aggregate dollar amounts of their purchases. For offerings under Rule 504, indicate the number of persons who have purchased securities and the aggregate dollar amount of their purchases on the total lines. Enter "0" if answer is "none" or "zero".

	Number Investors	Aggregate Dollar Amount of Purchases
Accredited Investors	<u>81</u>	\$ <u>128,020,000</u>
Non-accredited Investors	<u>0</u>	\$ <u>0</u>
Total (for filings under Rule 504 only)	<u>N/A</u>	\$ <u>N/A</u>

Answer also in Appendix, Column 4, if filing under ULOE

3. If this filing is for an offering under Rule 504 or 505; enter the information requested for all securities sold by the issuer, to date, in offerings of the types indicated, in the twelve (12) months prior to the first sale of securities in this offering. Classify securities by type listed in Part C-Question 1.

Type of offering	Type of Security	Dollar Amount Sold
Rule 505	_____	\$ <u>N/A</u>
Regulation A	_____	\$ <u>N/A</u>
Rule 504	_____	\$ <u>N/A</u>
Total	_____	\$ <u>N/A</u>

4. a. Furnish a statement of all expenses in connection with the issuance and distribution of the securities in this offering. Exclude amounts relating solely to organization expenses of the issuer. The information may be given as subject to future contingencies. If the amount of an expenditure is not known, furnish an estimate and check the box to the left of the estimate.

Transfer Agent's Fees	<input type="checkbox"/>	\$ <u>N/A</u>
Printing and Engraving Costs	<input type="checkbox"/>	\$ <u>N/A</u>
Legal Fees	<input checked="" type="checkbox"/>	\$ <u>250,000</u>
Accounting Fees	<input type="checkbox"/>	\$ <u>N/A</u>
Engineering Fees	<input type="checkbox"/>	\$ <u>N/A</u>
Sales Commissions (Specify finder's fees separately)	<input type="checkbox"/>	\$ <u>N/A</u>
Other Expenses (identify) <u>Organization of Issuer, Managing Member and Marketing Expenses</u>	<input checked="" type="checkbox"/>	\$ <u>250,000</u>
Total	<input checked="" type="checkbox"/>	\$ <u>500,000</u>

C. OFFERING PRICE, NUMBER OF INVESTORS, EXPENSES AND USE OF PROCEEDS (cont'd)

b. Enter the difference between the aggregate offering price given in response to Part C-Question 1 and total expenses furnished in response to Part C-Question 4.a. This difference is the "adjusted gross proceeds to the issuer."

\$ 199,500,000

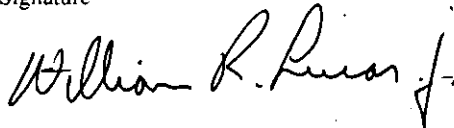
5. Indicate below the amount of the adjusted gross proceeds to the issuer used or proposed to be used for each of the purposes shown. If the amount for any purpose is not known, furnish an estimate and check the box to the left of the estimate. The total of the payments listed must equal the adjusted gross proceeds to the issuer set forth in response to Part C-Question 4.b. above.

		Payments to Officers, Directors & Affiliates		Payments To Others
Salaries and fees	<input type="checkbox"/>	\$ _____	<input type="checkbox"/>	\$ _____
Purchase of real estate	<input type="checkbox"/>	\$ _____	<input type="checkbox"/>	\$ _____
Purchase, rental or leasing and installation of machinery and equipment	<input type="checkbox"/>	\$ _____	<input type="checkbox"/>	\$ _____
Construction or leasing of plant buildings and facilities	<input type="checkbox"/>	\$ _____	<input type="checkbox"/>	\$ _____
Acquisition of other businesses (including the value of securities involved in this offering that may be used in exchange for the assets or securities of another issuer pursuant to a merger)	<input type="checkbox"/>	\$ _____	<input type="checkbox"/>	\$ _____
Repayment of indebtedness	<input type="checkbox"/>	\$ _____	<input type="checkbox"/>	\$ _____
Working capital	<input type="checkbox"/>	\$ _____	<input type="checkbox"/>	\$ _____
Other (Specify) <u>Capital for investments</u>	<input type="checkbox"/>	\$ _____	<input checked="" type="checkbox"/>	\$ <u>199,500,000</u>

Column Totals	<input type="checkbox"/>	\$ _____	<input checked="" type="checkbox"/>	\$ <u>199,500,000</u>
Total Payments Listed (column totals added)			<input checked="" type="checkbox"/>	\$ <u>199,500,000</u>

D. FEDERAL SIGNATURE

The issuer has duly caused this notice to be signed by the undersigned duly authorized person. If this notice is filed under Rule 505, the following signature constitutes an undertaking by the issuer to furnish to the U. S. Securities and Exchange Commission, upon written request of its staff, the information furnished by the issuer to any non-accredited investor pursuant to paragraph (b)(2) of Rule 502.

Issuer (Print or Type) Harbert Real Estate Fund III, LLC By: Harbert Real Estate Fund III MM, LLC, its Managing Member By: Harbert Management Corporation, its Managing Member	Signature 	Date October 16, 2006
Name of Signer (Print or Type) William R. Lucas, Jr.	Title of Signer (Print or Type) Senior Vice President of Harbert Management Corporation	


ATTENTION

Intentional misstatements or omissions of fact constitute federal criminal violations. (See 18 U.S.C. 1001.)

E. STATE SIGNATURE

- | | | | |
|----|---|---------------------------------|---|
| 1. | Is any party described in 17 CFR 230.262 presently subject to any of the disqualification provisions of such rule?..... | Yes
<input type="checkbox"/> | No
<input checked="" type="checkbox"/> |
| | See Appendix, Column 5, for state response. | | |
| 2. | The undersigned issuer hereby undertakes to furnish to any state administrator of any state in which this notice is filed, a notice on Form D (17 CFR 239.500) at such times as required by state law. | | |
| 3. | The undersigned issuer hereby undertakes to furnish to the state administrators, upon written request, information furnished by the issuer to offerees. | | |
| 4. | The undersigned issuer represents that the issuer is familiar with the conditions that must be satisfied to be entitled to the Uniform Limited Offering Exemption (ULOE) of the state in which this notice is filed and understands that the issuer claiming the availability of this exemption has the burden of establishing that these conditions have been satisfied. | | |

The issuer has read this notification and knows the contents to be true and duly caused this notice to be signed on its behalf by the undersigned duly authorized person.

Issuer (Print or Type) Harbert Real Estate Fund III, LLC By: Harbert Real Estate Fund III MM, LLC, its Managing Member By: Harbert Management Corporation, its Managing Member	Signature 	Date October 16, 2006
Name of Signer (Print or Type) William R. Lucas, Jr.	Title of Signer (Print or Type) Senior Vice President of Harbert Management Corporation	

Instruction:

Print the name and title of the signing representative under his signature for the state portion of this form. One copy of every notice on Form D must be manually signed. Any copies not manually signed must be photocopies of the manually signed copy or bear typed or printed signatures.

APPENDIX

1 State	2 Intend to sell to non-accredited investors in State (Part B-Item 1)		3 Type of security and aggregate offering price offered in state (Part C-Item 1)	4 Type of investor and amount purchased in State (Part C-Item 2)				5 Disqualification under State ULOE (if yes, attach explanation of waiver granted (Part E-Item 1))	
	Yes	No		Number of Accredited Investors	Amount	Number of Nonaccredited Investors	Amount	Yes	No
AL		X	\$200,000,000 Units	53	\$86,520,000				X
AK									
AZ									
AR									
CA		X	\$200,000,000 Units	1	\$5,000,000				X
CO									
CT		X	\$200,000,000 Units	2	\$8,000,000				X
DE									
DC									
FL									
GA		X	\$200,000,000 Units	6	\$5,800,000				X
HI									
ID									
IL									
IN									
IA									
KS									
KY									
LA									
ME									
MD									
MA									
MI									
MN									
MS									
MO		X	\$200,000,000 Units	3	\$2,500,000				X
MT									
NE									
NV									
NH									
NJ		X	\$200,000,000 Units	1	\$100,000				X
NM									
NY									
NC		X	\$200,000,000 Units	3	\$5,800,000				X
ND									

1	2		3	4				5	
	Intend to sell to non-accredited investors in State (Part B-Item 1)			Type of security and aggregate offering price offered in state (Part C-Item 1)	Type of investor and amount purchased in State (Part C-Item 2)				Disqualification under State ULOE (if yes, attach explanation of waiver granted (Part E-Item 1))
State	Yes	No		Number of Accredited Investors	Amount	Number of Nonaccredited Investors	Amount	Yes	No
OH		X	\$200,000,000 Units	2	\$3,000,000				X
OK									
OR									
PA		X	\$200,000,000 Units	4	\$7,500,000				X
RI									
SC									
SD									
TN		X	\$200,000,000 Units	5	\$2,750,000				X
TX		X	\$200,000,000 Units	1	\$1,000,000				X
UT									
VT									
VA									
WA									
WV									
WI									
WY									
PR									